

AR27

Phillips  
Petroleum  
Company  
*Annual  
Report  
1983*





## Corporate Profile

Phillips was founded in Bartlesville, Okla., in 1917 and remains headquartered in this northeastern Oklahoma city.

Phillips is engaged in petroleum exploration and production on a worldwide basis, and petroleum refining and marketing in the United States. The company produces and distributes chemicals in the United States and has production facilities or sales offices in 20 other countries. In the early 1970s, the company began work to develop other energy resources, including geothermal power, coal and oil shale. The company's operating activities are organized in five groups: Exploration and Production, Gas and Gas Liquids, Minerals, Petroleum Products and Chemicals. Each group's operations are summarized in individual sections of this report.

At the end of 1983, Phillips employed 28,400 people, had 119,800 shareholders and assets of \$13.1 billion. The company's products and processes were licensed in 31 countries.

### About the Cover

During the year, the company began a program to enhance the Phillips 66 brand. Part of the program includes building model stations like this one, where new marketing concepts can be tested. The marketing concepts utilized in these stations are expected to be adopted by the company's jobbers—the independent business people who market most of Phillips petroleum products. In this station, customers find a wide variety of facilities, including a convenience store, service bay, car wash, digital pumps and a computer system for customer billing and service without the assistance of a station attendant.

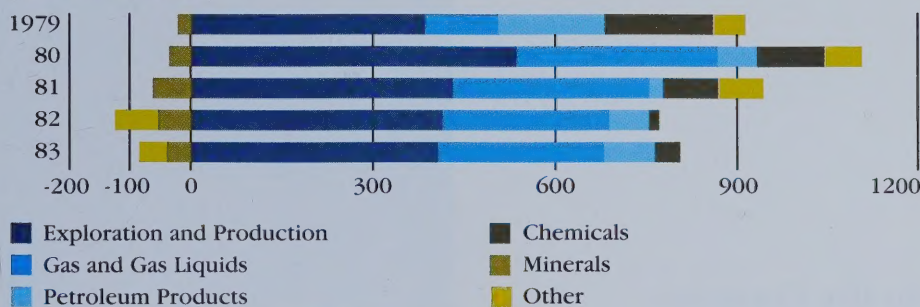
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## Net Income

(Millions of Dollars)



## Highlights

“Phillips,” “the company,” “we” and “our” are used interchangeably in this report to refer to the business of Phillips Petroleum Company and its consolidated subsidiaries. Where reference is made to a particular company, it is wholly owned unless otherwise stated. The company’s consolidation policy is to include in financial statements the accounts of companies in which more than 50-percent interest is held, except for an insurance company and a credit company.

Marlex, Ryton, K-Resin, Rufon, Soltex and Driscopipe are trademarks for the company’s products and processes named in this report.

Millions of Dollars Except as Indicated

	1983	1982	1981
<b>Financial</b>			
Total revenues	\$15,411	15,892	16,288
Net income	\$ 721	646	879
Net income per average share outstanding	\$ 4.71	4.23	5.78
Net income from each dollar of revenue	4.7¢	4.1	5.4
Total taxes charged to income (see Note 8 of notes to financial statements)	\$ 2,003	1,931	2,441
Dividends paid	\$ 337	336	335
Dividends per share	\$ 2.20	2.20	2.20
Average shares outstanding (in thousands)	153,191	152,711	152,181
Capital expenditures	\$ 1,141	2,132	2,664
Total assets at year-end	\$13,094	12,097	11,264

Thousands of Barrels Daily

<b>Operating</b>			
Crude oil produced			
United States	127	112	116
Outside United States	120	113	130
Natural gas liquids produced	175	160	163
Total liquids produced	422	385	409
Crude oil refined	260	277	285
Petroleum products sold	505	513	501

Millions of Cubic Feet Daily

Natural gas produced	1,266	1,260	1,388
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Wm. C. Douce

## To the Owners:

**W**e had a better year than expected in 1983, with earnings increasing in the face of flat energy demand and declining crude oil prices. And we were particularly pleased to be able to achieve a net increase in our worldwide reserves of petroleum liquids and natural gas, which is contrary to the industry trend.

These two accomplishments—growth in earnings and growth in reserves—are indications that we are successfully coping with a period of unprecedented uncertainty in the oil industry and continuing to increase our company's strength and investment value.

### 1983 Highlights

Earnings for the year were \$721 million, or \$4.71 a share, compared with 1982 earnings of \$646 million, or \$4.23 a share. Revenues in 1983 were \$15.41 billion, slightly below 1982 revenues of \$15.89 billion.

Our ability to achieve higher earnings from lower revenues emphasizes the benefits of our continuing program to improve efficiency and productivity. Increased oil production during the year, both overseas and in the United States, was also a factor in our earnings improvement.

In the U.K. sector of the North

Sea, we brought our Maureen field into production ahead of schedule, with initial oil output exceeding our expectations. The field's rapid development and its higher-than-expected production had a favorable impact on our company's earnings.

In the United States, our acquisition of General American Oil Company contributed significantly to our higher domestic crude oil production during the year and gave us some promising acreage in the Gulf of Mexico, Texas, Canada and elsewhere.

Our additions to worldwide reserves in 1983 more than replaced the oil and gas we produced. During the year, our reserves of crude oil increased by 15 percent, our reserves of natural gas liquids increased by 11 percent, and gas reserves rose by 3 percent.

A significant factor in our higher crude oil reserves was the 82 million barrels we acquired with the purchase of General American. However, a much larger contribution came from our ongoing exploration and development program, which generated reserve additions of 121 million barrels during the year. These additions alone replaced 134 percent of our production.

A major focus of our exploration activity in 1983 continued to be offshore California, where we and our co-venturers are developing the Point Arguello oil field, the largest domestic discovery in recent years. Construction began during the year on our first production platform for Point Arguello, and we expect to begin production from the field in 1986.

In March of 1984, we and our co-venturers announced the discovery of two additional oil fields in the Santa Maria Basin. The Rocky Point field is two miles north of the Point Arguello field, and the Bonito field is located five miles northwest of the Point Arguello field. We're now in the process of evaluating data obtained from wells drilled in these two new fields to determine how best to proceed. In the meantime, we are continuing to drill additional wells to assess the potential of other leases along the California coast.

We decided in 1983 to proceed with a large-scale waterflood project to increase the recovery of oil from our Ekofisk field in the Norwegian North Sea. While this is a pioneering effort, we believe that we and our co-venturers can recover an estimated 170 million additional barrels of crude oil over the life of the field.





C.J. Silas

We further increased our capacity to refine high-sulfur crude oil with our newly modernized Borger, Texas, refinery being in full operation during the year. Use of this lower cost crude at both our Borger and Sweeny, Texas, refineries helped reduce the cost of crude oil delivered to our refineries by 10 percent in 1983 and contributed to higher earnings from this part of our business.

Because of the increasingly competitive market for gasoline and other petroleum products, we stepped up our marketing activities in 1983. We redesigned and rebuilt several company-owned service stations and announced plans for more of these renovations in 1984. These stations are intended to demonstrate advanced design concepts and technological innovations which can be adopted by our jobbers. We also initiated a major credit card solicitation program to attract new accounts, launched an aggressive effort in cooperation with our jobbers to improve facilities and service at all Phillips 66 stations and intensified our national advertising.

Our chemicals operations became more profitable in 1983, partly because of improved

operating efficiencies and partly because of improvements in the economy. Sales were up for our three major plastics, Marlex, K-Resin and Ryton. Our fibers business improved, in part because increased highway construction stimulated demand for our nonwoven asphalt reinforcement fabric. The recovery of the U.S. automobile industry also helped sales in our carbon black and synthetic rubber businesses.

In 1983 we also intensified our long-range research and development effort into several high technology areas. These research areas were selected to build on the experience and skills we've developed over the years. For example, our background in using natural gas to nurture protein organisms is the basis for our activities in the promising field of biotechnology. And our success in plastics development is the foundation for further research into advanced plastics and composite materials.

### **The Shape of the Future**

In recent years, our industry has been undergoing substantial change. Such factors as deregulation and rigorous energy conservation have transformed the economic climate in which

we operate. In recognition of these fundamental alterations in our business, Phillips has been reshaping itself to remain a strong competitor. While this process can never be considered complete, major changes are now in place.

Today our operational flexibility is greatly improved, and we remain financially strong. We have fewer employees than at any time since 1977, with our work force now more efficient and productive. Our refineries are now operating closer to their rated capacity than most other refineries in the industry. In addition, our refineries have increased their operating efficiency and are processing some of the lowest cost raw materials available.

Our chemicals operations, strengthened by selective changes in business lines, have increased their profitability and are well-positioned to benefit from further improvements in the economy.

We continue to have a vigorous and well-balanced exploration and development program. This program includes low-cost, low-risk prospects which can be brought into production immediately, many of them located in Texas, Oklahoma, Wyoming and Montana.



## Letter to Owners (cont.)

This program also includes appraisal drilling and rapid development of fields which can be brought into production in a relatively short time, like our discoveries offshore California and in the U.K. sector of the North Sea.

And we are exploring in such promising new areas as offshore the People's Republic of China and in frontier areas like offshore Alaska and offshore Norway near the Arctic Circle.

We have also established solid positions in areas with high potential for growth which lie outside the traditional oil and gas business. These areas include oil shale, lignite coal, geothermal energy, advanced materials, catalysts, mining chemicals, biotechnology and nuclear fusion.

### The Year Ahead

From all indications, we expect 1984 to be a year of stability in both energy demand and prices. Any increase in demand which may be generated by further economic recovery is likely to be offset by continuing conservation.

And crude oil price changes are likely to be minimal as long as the world's major exporting countries continue to adjust their production levels in response to fluctuations in demand.

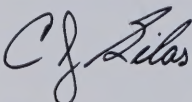
To compete effectively in this business environment, we will continue our efforts to lower costs, add to our reserves and increase our production of both oil and natural gas.

Our company has changed significantly in recent years in order to retain its competitive position in an industry undergoing a major transformation. And we intend to do whatever else is required to continue increasing the value of your investment in our company.

For the Board of Directors,

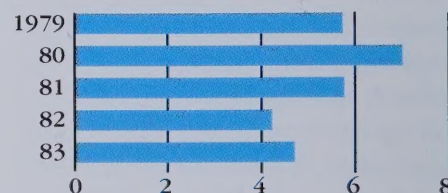


Wm. C. Douce  
Chairman and  
Chief Executive Officer

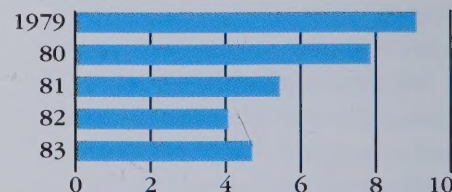


C.J. Silas  
President and  
Chief Operating Officer

### Net Income Per Share (Dollars per Share)



### Profit from Each Dollar of Revenue (Cents per Dollar)





## Exploration and Production



*These two workers are part of a team of several dozen oil field specialists who helped position the Maureen production platform in 300 feet of water in the U.K. sector of the North Sea.*



A number of significant events highlighted Phillips exploration and production activities in 1983. During the year, the company began producing its first crude oil from the U.K. sector of the North Sea and significantly added to petroleum reserves through the acquisition of General American Oil Company. In addition, construction began on the first production platform for the giant Point Arguello oil field offshore California. Also during the year, the company was awarded a block offshore the People's

Republic of China, and a decision was made to proceed with a waterflood program to increase the recovery of crude oil from the Ekofisk field in the Norwegian North Sea.

Net income from Exploration and Production was \$406 million in 1983, compared with \$416 million in 1982. Equity in earnings from affiliated companies related to Exploration and Production amounted to an additional \$26 million in 1983, compared with \$32 million in the previous year. The decrease in Exploration and Production's earnings stemmed primarily from lower crude oil prices and higher

*The Phillips Oklahoma prepares to take on crude oil from the Maureen field, located about 160 miles off the coast of Scotland. Crude oil is moved from the production platform in the distance and loaded into tankers through the yellow swivel mooring system.*



*A helicopter lands on the deck of a rig drilling for Phillips and a co-venturer in California's Santa Maria Basin, where the giant Point Arguello oil field is being developed. The waters off the coast of California are a major exploration site for the company.*



## Exploration and Production

operating expenses. This was almost entirely offset by a 10-percent increase in crude oil production, primarily in the United States and the U.K. sector of the North Sea.

Expensed petroleum exploratory costs and leasehold impairment increased 3 percent in 1983 to \$650 million. Of this, dry hole costs were \$214 million in 1983, down 35 percent from a year earlier. The company's reduction in dry hole costs resulted primarily from a more selective exploration program.

U.S. and foreign taxes continued to be a major expense. In 1983, 78 cents out of every dollar of Exploration and Production's pretax income went for income taxes, compared with 77 cents in 1982. The company's income taxes on its Norwegian operations were \$1.1 billion in 1983, compared with \$943 million in 1982. The U.S. crude oil excise tax—or the so-called windfall profits tax—amounted to \$186 million, or \$4 for each barrel of U.S. crude oil produced.

The company held exploration and production acreage in 14 nations at the end of the year. Phillips was involved in the completion of 203 exploratory wells, 60 of which were completed for production. Of the total number of exploratory wells, Phillips operated or had a working interest in 114 wells, 32 of which were productive. The remaining 89 wells were completed through farmouts, of which 28 were productive. Under farmout arrangements, other firms drill on Phillips acreage in return for an interest in the acreage and any future production.

In the United States, discoveries were made offshore California, in Texas, Montana, Oklahoma, New Mexico, Wyoming and in the Gulf of Mexico. Outside the United States, discoveries were made offshore Norway, the United Kingdom, the Republic of Ivory Coast and the Netherlands, as well as in Nigeria and Canada.

### Reserves

Phillips estimated worldwide proved reserves of crude oil showed a net gain in 1983, increasing 15 percent to 850 million barrels. Proved reserves of natural gas liquids showed a net increase, rising 11 percent to

198 million barrels. At the end of the year, worldwide proved reserves of natural gas were 6.86 trillion cubic feet, a net increase of 3 percent from a year earlier. Reserves include those acquired in the purchase of General American Oil Company.

Estimates of proved reserves are based upon reservoir information, technology and economics available at the end of the year. Such reserves, however, cannot be measured precisely. Adjustments are made to reserve estimates to reflect changes in economic conditions, results of drilling and production and technical reevaluation of reservoirs.

### Prices and Revenues

Worldwide crude oil prices were lower in 1983 than in 1982. As a result, Exploration and Production's total crude oil revenues from inside and outside sales decreased 1 percent. In the United States, Phillips average price for crude oil was down 8 percent, but crude oil revenues increased 4 percent because of





*A pumping jack is framed by a network of pipelines, part of an enhanced oil recovery project under way in Kern County, Calif. The curved shape allows the pipeline to expand when steam is injected into the reservoir to force low-gravity oil to producing wells.*



*In state waters offshore California, this rig drilled a natural gas and gas condensate discovery in a deeper reservoir in the Molino field in the Santa Barbara Channel. At the end of 1983, another well was in progress. Production will be piped to existing onshore facilities, starting in 1985.*



*This producing well operates in the Powder River Basin in Wyoming, site of an active exploration and development program for Phillips. In 1983 the company drilled or participated in six oil discoveries in the area.*



## Exploration and Production

increased production. However, despite increased foreign production, crude oil revenues outside the United States were down 5 percent due to a 12-percent decrease in the average foreign price.

Worldwide revenues for natural gas from inside and outside sales by Exploration and Production were about the same as in 1982. In the United States, natural gas prices were up 16 percent, and revenues increased 10 percent. Outside the United States, prices were down 11 percent and revenues were 6 percent lower.

### General American Oil Company Acquisition

The acquisition of General American Oil Company in 1983 not only strengthened the company's reserve position, it also increased the company's production and acreage position, especially in the United States and Canada. Through the General American acquisition, the company acquired about three million net acres in 24 states and three foreign countries. In North America, important additions to

production and acreage were made in Canada, the Hardeman Basin in north Texas, the Powder River Basin in Wyoming, the Williston Basin in Montana and in the Gulf of Mexico.

Outside North America, the company acquired new acreage in the U.K. sector of the North Sea and offshore the Netherlands, where an oil discovery and a natural gas discovery were being evaluated at the end of the year.

### United States

U. S. crude oil production increased 13 percent from a year earlier. The acquisition of General American Oil Company was a significant factor in Phillips higher U.S. crude oil production in 1983. Despite weak demand industrywide, the company's U.S. natural gas production was about the same as in 1982.

Enhanced recovery projects, including tertiary recovery methods, helped increase production from older fields during the year. In 1983 these projects accounted for about one-third of the company's U.S. crude oil production. Phillips is the operator of 16 tertiary projects and is participating in another 30 projects.

U.S. capital expenditures for Exploration and Production were

\$441 million in 1983. Expensed exploratory costs and leasehold impairment totaled \$425 million for the year. The company completed or participated in the completion of 919 U.S. exploratory and development wells, a 17-percent decrease from 1982.

The waters off the coast of California continued to be a major site for the company's exploration work in 1983. During the year, the company moved ahead to bring the giant Point Arguello oil field into production. The Point Arguello field was discovered by Phillips and co-venturers in 1981 in the Santa Maria Basin. Subsequent drilling by Phillips and other companies confirmed the presence of a giant oil field with possible recovery of 300 million to 500 million barrels of oil.

In 1983 construction began on the Hermosa platform, the first production platform for the field. It is expected to be in place in 1985, with production beginning in 1986. Production from the platform is expected to reach





*A drilling crew member checks equipment on a rig operating for Phillips off the coast of Corpus Christi, Texas. Two other crew members, at right, examine a drill bit used in the well. During the year, the company increased its federal acreage in the Gulf of Mexico by 54 percent.*



about 30,000 barrels of oil a day in 1987, with 12,000 barrels a day net to Phillips. The company has a 40-percent interest in the lease. Design of a second production platform, called Hidalgo, was under way at the end of the year. The platform will be located on an adjacent block northwest of the Hermosa platform, with production expected to begin in 1987. Phillips has a 50-percent interest in the block.

In 1983 Phillips drilled or participated in 17 exploratory wells in federal waters offshore California in order to evaluate further the extent of the Point Arguello field, as well as other leases held by Phillips and co-venturers. Phillips has interests ranging from 25 to 50 percent in 43 federal leases, covering 93,700 net acres, offshore California. Additional exploratory drilling is planned in 1984.

In California state waters, the company drilled a natural gas and gas condensate discovery in a deeper reservoir in the Molino field in the Santa Barbara Channel. Another well was being drilled at

the end of the year. Production will be piped to existing onshore facilities, beginning in 1985.

In Wyoming's Powder River Basin, the company drilled or participated in six oil discoveries during the year. Additional development drilling is planned in 1984.

In the Williston Basin in Montana, the company discovered and confirmed the Long Creek oil field by drilling two successful wells in 1983. Additional development drilling is planned in 1984.

In the southwestern part of the country, three natural gas discoveries were drilled in 1983 in the Hugoton area of the Oklahoma and Texas panhandles. In the Hardeman Basin in north Texas, the company participated in 17 exploratory wells in 1983, of which eight were oil discoveries. At the end of the year, four other wells in the area were being drilled or evaluated. In southeastern New Mexico, the company drilled two natural gas discoveries in 1983.

At two federal lease sales held in 1983, the company acquired an interest in 18 leases offshore Louisiana and nine leases offshore Texas. The acquisition of

General American Oil Company added interests in an additional 60 leases in the Gulf of Mexico, bringing Phillips total federal acreage in the area to 169,000 net acres. In 1983 the company participated in 12 exploratory wells in the Gulf of Mexico, two of which were natural gas discoveries. Additional drilling is planned in 1984.

At the end of the year, the company was also participating in an exploratory well in state waters offshore Alabama.

In Alaska, Phillips holds approximately 190,000 net acres, half located on the North Slope. Net production from the North Slope averaged 27,100 barrels of oil a day in 1983, the same as a year ago. This production accounted for 21 percent of the company's total U.S. crude oil production.

### **Norway**

The Greater Ekofisk Development in the Norwegian North Sea continued to be the company's single most important petroleum operation and a major contributor to net income in 1983. Phillips has a 37-percent interest in the seven-field area. In 1983 Greater



*Another platform will eventually join this complex in the Norwegian North Sea as a result of a waterflood program planned by the company and its co-venturers. The \$2 billion project will recover more oil from one of the seven fields that make up the Greater Ekofisk Development.*



## Exploration and Production

Ekofisk accounted for 27 percent of the company's total petroleum production.

For the year, the company's production of crude oil averaged 80,500 barrels a day, down 6 percent from a year earlier. Natural gas liquids production averaged 13,800 net barrels a day, up 12 percent from 1982. The company's share of natural gas production averaged 381 million cubic feet a day, down 6 percent from the previous year.

Phillips and its co-venturers are undertaking a waterflood project to increase the recovery of crude oil from the Ekofisk field. Construction of a water-injection platform will begin in 1984, with installation in 1986 and initial water injection in 1987. It is estimated that the waterflood will allow recovery of an

additional 170 million gross barrels of crude oil over the life of the field. Because of the pioneer nature of the venture, the Norwegian government has granted special tax depreciation benefits for the project.

Near the Greater Ekofisk Development is the Tommeliten gas condensate field, where studies are under way to determine the commerciality of the field. The company has a 26-percent interest.

During the year, the company participated in five exploratory wells offshore Norway and was participating in a sixth well at the end of the year.

In waters north of the 62nd degree north parallel, the company participated in an unsuccessful well in the Traenabank area. In the Askeladd area, the company participated in one unsuccessful well and in a natural gas discovery during the year. It is the company's second natural gas discovery in the area. Phillips has a 10-percent interest.

In the Cod field, part of the Greater Ekofisk Development, an exploratory well to test deeper zones found noncommercial quantities of oil.

Northeast of the Greater Ekofisk Development, the company participated in an unsuccessful well and was participating in another well on an adjacent block at the end of the year.

### United Kingdom

In September Phillips began producing its first crude oil from the U.K. sector of the North Sea. At the end of the year, the Maureen field, located about 160 miles northeast of Aberdeen, Scotland, was producing at the rate of 81,000 barrels of oil a day, with more than 27,000 barrels a day net to Phillips. Although the field has produced as much as 100,000 barrels a day, proration restrictions by the U.K. Department of Energy will limit the average production in 1984 to 72,000 barrels a day. Phillips has a 34-percent interest and is the operator. The Maureen field has the world's largest steel gravity production platform, the first





*Routine maintenance is an ongoing activity on the 11 production platforms that make up the Greater Ekofisk Development. During the year, Greater Ekofisk accounted for 27 percent of the company's total petroleum production.*



such unit to be built for the North Sea. A total of 12 producing wells and seven water-injection wells were predrilled through a subsea template, while the production platform was being built onshore. As a result, almost a year was saved in bringing the field to full production.

Because of recent revisions in U.K. tax and royalty rates, the company is reevaluating the commercial potential of several other oil discoveries in the U.K. sector of the North Sea. One of these is the T-block, in which Phillips has a 35-percent interest in four discoveries. Early in 1984, the company finished testing a successful appraisal well. Another appraisal well will be drilled later in 1984 to determine the feasibility of future development. Also under study for future development is the J-block area, where Phillips drilled a successful appraisal well in 1983. The company has a 33-percent interest. Additional appraisal drilling is planned in 1984.

During the year, Phillips and the British Gas Corporation signed agreements for the sale to British Gas Corporation of natural gas produced from the Audrey field in the U.K. sector of the North Sea. Depending on the outcome of two appraisal wells, natural gas could be delivered by 1986. Phillips has a 35-percent interest and is the operator.

In 1983 Phillips share of production from the Hewett area natural gas fields averaged 62 million cubic feet a day, down 6 percent from 1982. Production was lower as a result of the natural decline in the fields. Phillips has a 19-percent interest in the Hewett fields.

#### **Ivory Coast**

In 1983 the company's share of production from the Espoir field offshore the Republic of Ivory Coast averaged 4,600 barrels of oil a day. In 1983 a development well was completed and connected to the production platform, and early in 1984 another development well was tied into the production platform.

The company has a 57.5-percent interest in two production-sharing contracts covering the Espoir field. The company's ,

interest in one of the contracts could be reduced if the Ivorian national oil company exercises its option to increase its participation up to a maximum of 60 percent.

To the west of the Espoir field, Phillips has a 57.5-percent interest in another block. This interest is also subject to reduction under the Ivorian national oil company's option to increase its participation up to 60 percent. During the year, the company drilled three exploratory wells in the western portion of this block. One of the wells was an oil discovery, and two were dry holes. A three-dimensional seismic survey was under way at the end of the year, and additional drilling was planned in 1984 to evaluate the block further.

#### **Nigeria**

Exploratory and development drilling continued in Nigeria during the year, where the company has a 100-percent interest in one license and a 20-percent interest in four other production



*The jungle of Peru, where this rig drills, was one of several areas overseas where Phillips explored for oil and natural gas during the year.*

*At the end of 1983, the company held exploration and production acreage in 13 countries outside the United States.*



## Exploration and Production

licenses. Net production averaged 19,900 barrels of oil a day in 1983, down 7 percent from 1982.

### Egypt

Net production from three fields in Egypt averaged 2,300 barrels of oil a day in 1983, compared with 2,800 barrels a day in 1982.

### Indonesia

Phillips net production from Indonesia in 1983 averaged 3,400 barrels of oil a day, compared with 1,100 barrels of oil a day a year earlier. The increase was the result of an agreement with the Indonesian government to resume production that was suspended by the government in 1981 in an area of northeast Kalimantan. Phillips and co-venturers will be able to recover all previously incurred costs before turning the field and related equipment over to Indonesia's national oil company. Phillips has a 50-percent interest.

During the year, the company completed a seismic program covering approximately 61,000 acres on Tarakan Island. An exploratory well will be drilled in 1984. Phillips has a 50-percent interest.

In 1983 the company participated in two successful development wells and one unsuccessful development well in the Teluk Berau area, where Phillips has a 50-percent interest.

### Canada

As a result of the General American Oil Company purchase, Phillips acquired new oil and natural gas production in the Canadian provinces of Alberta, British Columbia and Saskatchewan. The company's total Canadian production amounted to 3,400 barrels of oil a day in 1983 and 24 million cubic feet a day of natural gas.

### Other Exploratory Areas

Late in the year, Phillips and a co-venturer were awarded a contract, effective Jan. 1, 1984, covering 701,000 acres in the Pearl River Mouth Basin offshore the People's Republic of China. Phillips has a 50-percent interest and is the operator. The company plans to begin additional seismic work in 1984. In 1980 Phillips, as operator for a group of companies, completed seismic work off the southern coast of the country.

At the end of the year, an oil discovery and a natural gas discovery offshore the Netherlands were being evaluated. Phillips has a 10-percent interest

in the oil discovery and a 12-percent interest in the natural gas discovery.

Seismic work continued in 1983 in Thailand, where Phillips has a 50-percent interest in six million acres.

Offshore the southern coast of Australia, the company drilled four unsuccessful exploratory wells in 1983 in two contract areas. Phillips has a 33-percent interest in both areas.

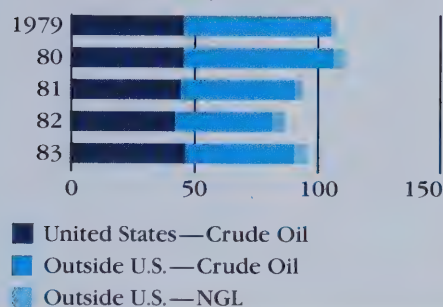
During the year, the company participated in an unsuccessful exploratory well in Peru, and another exploratory well was being drilled at the end of 1983. Phillips has a 30-percent interest.

At the end of the year, an advanced computer system to analyze three-dimensional seismic data more rapidly was being installed in Bartlesville, Okla., headquarters. Three-dimensional seismology is used to indicate more precisely the location of hydrocarbon reserves prior to the drilling of expensive appraisal wells. During the year, three-dimensional seismology was used successfully offshore the Republic of Ivory Coast, the United Kingdom and Southern California.



## Net Crude Oil and Natural Gas Liquids Production

(Millions of Barrels)



## Net Natural Gas Production

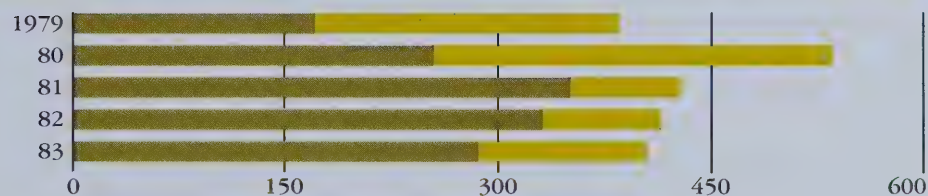
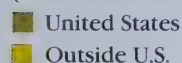
(Billions of Cubic Feet)



## Exploration and Production Statistics

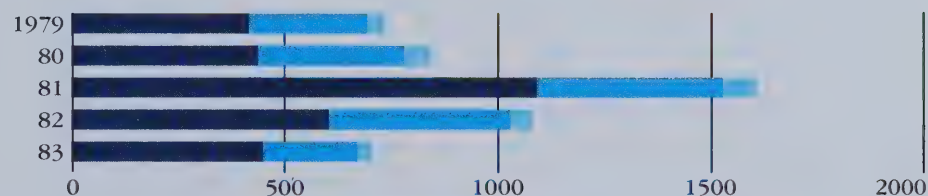
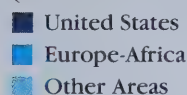
### Net Income

(Millions of Dollars)



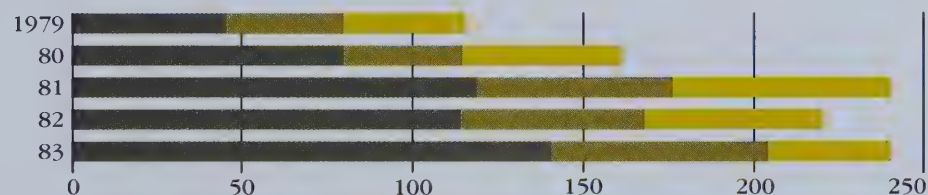
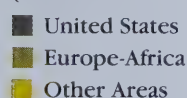
### Capital Expenditures

(Millions of Dollars)



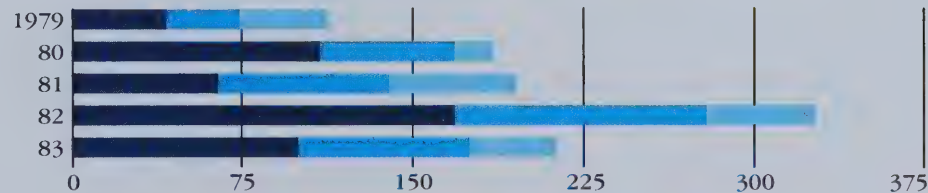
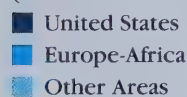
### Geological and Geophysical Expenses

(Millions of Dollars)



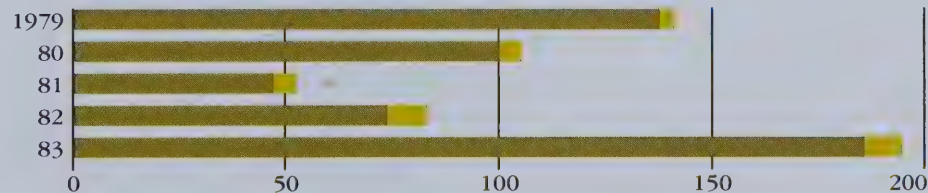
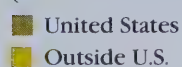
### Dry Hole Costs

(Millions of Dollars)



### Impairment of Leasehold Investments and Lease Rentals

(Millions of Dollars)





*A specially designed tanker takes on a load of liquefied natural gas (LNG) at the company's joint-interest plant in Kenai, Alaska. The LNG is transported to two utilities in Japan. Phillips share of LNG sales from the plant amounts to about 35 billion cubic feet a year.*



## Gas and Gas Liquids

Phillips natural gas and natural gas liquids operations continued to be an important contributor to net income.

In 1983 Gas and Gas Liquids earned \$274 million, compared with \$276 million in 1982. The decline in earnings was caused primarily by higher acquisition costs for natural gas processed and lower investment tax credits. Earnings benefited from higher sales prices for natural gas and natural gas liquids and higher natural gas liquids production.

Gas and Gas Liquids acquires, gathers and processes raw natural gas. It then extracts natural gas liquids from the natural gas and markets the residue gas. In 1983 Phillips continued to be the largest producer of natural gas liquids in the United States, with

production of 161,500 barrels a day. This compares with production of 147,700 barrels a day of natural gas liquids in 1982.

During the year, revenues were up for natural gas but down for liquefied natural gas. Revenues from natural gas sold from the company's extraction plants were up 6 percent as a result of higher prices. Revenues from liquefied natural gas delivered from a 70-percent-interest Kenai, Alaska, plant were down 7 percent, primarily because lower crude oil prices decreased the base on which the sales price for liquefied natural gas is determined.

### U.S. Reserves

The company continues to have access to large reserves of natural gas and natural gas liquids through both its own exploration and production efforts and through purchase contracts and processing and exchange agreements. Estimated U.S. reserves of natural gas available through contracts and agreements totaled 2.64 trillion cubic feet at the end of 1983, compared with 1.94 trillion cubic feet at the end of 1982. U.S. reserves of natural gas liquids available under

natural gas purchase contracts and processing agreements were an estimated 385 million barrels at the close of 1983, compared with 241 million barrels a year earlier. The increase in natural gas and natural gas liquids reserves was due primarily to an upward revision of reserve estimates.

### Gas Gathering and Processing

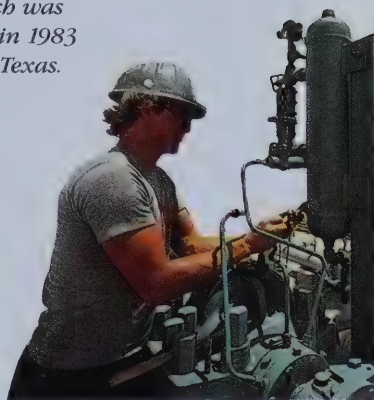
Phillips large supplies of natural gas and natural gas liquids are a traditional strength in the company's ability to meet the fuel and feedstock requirements of its refinery operations and petrochemical manufacturing facilities. Natural gas liquids are used as a fuel and as a raw material for manufacturing petrochemicals, as well as for blending into motor fuel.

The volume of natural gas liquids extracted increased in 1983. This was primarily the result of extracting additional volumes of ethane and improving plant efficiencies.





*A processing tower stands high above this natural gas liquids extraction plant, which was completed in 1983 in Dumas, Texas.*



*Equipment is checked at a new plant near Hobbs, N.M., that treats natural gas liquids before they are delivered to pipeline and fractionation facilities. In 1983 Phillips U.S. production of natural gas liquids was 161,500 barrels a day.*

In 1983 U.S. sales of residue gas were down 7 percent from a year earlier. This was caused primarily by depressed markets. During the year, the company processed a net of 1.7 billion cubic feet of natural gas a day, the same as in 1982.

Early in 1984, the company agreed to purchase the full interest in Seaway Pipeline, Inc.'s 500-mile, 30-inch diameter pipeline that stretches from Freeport, Texas, to Cushing, Okla. Phillips expects to use the pipeline to gather and deliver natural gas produced from oil and gas fields located along the pipeline's route.

During the year, the company added 3,200 miles of gas-gathering pipelines to connect 2,000 producing wells to its processing facilities. Phillips is one of the country's largest gas gatherers with 20,350 miles of gas-gathering pipelines. In an effort to enhance the profitability of the company's pipeline and processing facilities,

energy audits were conducted and facility models developed during the year. Energy audits determine if all facilities are operating at maximum efficiency with minimum fuel consumption. Facility models analyze current operations and project future results. Through these studies, the company plans to determine what changes in operating procedures should be implemented in its gas gathering and processing system.

During the year, the company completed and began operating a new cryogenic natural gas liquids extraction plant adjacent to an existing plant near Dumas, Texas. The facility has the capacity to process 60 million cubic feet a day of natural gas. The plant is designed to remove nitrogen from natural gas, thereby making the natural gas more marketable.

A new natural gas liquids extraction plant, completed in late 1982 near Brenham, Texas, had a full year of operation in 1983 and produced more than 2 million barrels of natural gas liquids. The plant, located in the gas-prone Austin Chalk Trend, has a capacity of 75 million cubic feet a day.

In 1983 the company acquired an interest in a natural gas liquids extraction plant as a result of its acquisition of General American Oil Company. The plant is located near Odessa, Texas, and has a total capacity of 85 million cubic feet a day of natural gas.

At the end of the year, Phillips wholly or jointly owned 61 natural gas liquids extraction plants in the United States.

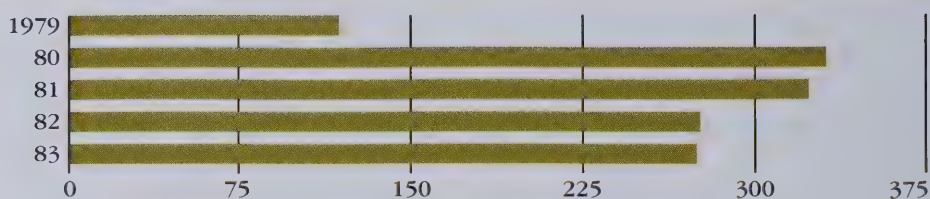
A plant for treating natural gas liquids was completed during the year near Hobbs, N.M. The plant prepares natural gas liquids for delivery to outside pipeline and fractionation facilities.



## Gas and Gas Liquids Statistics

### Net Income

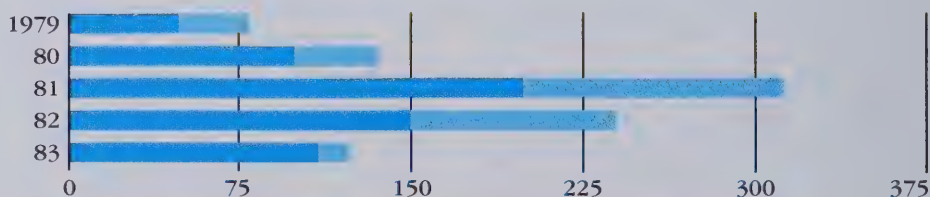
(Millions of Dollars)



### Capital Expenditures

(Millions of Dollars)

- Natural Gas Systems
- NGL Extraction Plants



### U.S. Net NGL Production

(Millions of Barrels)

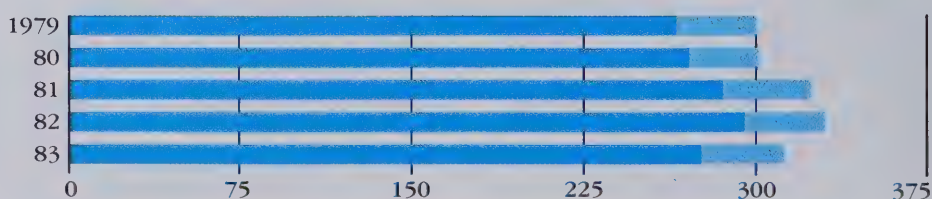
- Leasehold
- Plant



### U.S. Natural Gas Sales

(Billions of Cubic Feet)

- Residue Gas
- Liquefied Natural Gas





*Sales of steam from this geothermal discovery near Milford, Utah, will begin in mid-1984, marking Phillips first commercial geothermal energy venture. In 1983 the company also entered into a contract with a Nevada utility to supply electricity from a geothermal-fueled pilot plant to be built near Reno.*



## Minerals

The signing of a contract to supply electricity generated from geothermal energy was one of the most important commercial developments in the company's minerals operations during the year. Overall, Phillips expenditures for energy minerals development were 79 percent lower in 1983, with capital expenditures reduced to \$13 million.

### Coal

Phillips plans to begin producing lignite for electric utility markets in the late 1980s or early 1990s.

During the year, the company sold approximately 146 million tons of in-place lignite to a local utility in Texas. The lignite was located in areas where the company does not plan to mine for lignite. The company plans to sell other nonessential reserves in the future.

Phillips has estimated reserves of more than eight billion tons of lignite in six Southern states. In addition, the company has approximately 350 million tons of coal in place in the Powder River Basin in Wyoming.

### Geothermal

In 1983 Phillips continued to make progress in developing its first commercial geothermal energy venture. Sales of steam from the Roosevelt Hot Springs geothermal discovery, near Milford, Utah, will begin in mid-1984. A Utah utility is now constructing generating facilities at the site. The 20-megawatt plant will be able to supply the total electricity requirements for a city of about 20,000 people.

In late 1983, Phillips entered into a contract with a Nevada utility to supply electricity from a nine-megawatt geothermal-fueled pilot plant to be built at Desert Peak, near Reno. Construction is scheduled to begin in 1984, with sales of electricity to begin in 1985. The pilot plant is expected to generate enough power to provide the daily electricity needs for a town of about 9,000 population.

### Oil Shale

Phillips holds an equal interest with two other companies in the White River Shale Oil Project, located in northeastern Utah. The company has licensed retorting technology for the White River project and has on-site observers at a Colorado oil shale project, which is considered the most advanced of its type under way.

In addition to its Utah holdings, the company has oil shale acreage in Colorado and Indiana.

### Uranium

Because of depressed demand for uranium, Phillips Nose Rock mine in northwestern New Mexico remained on standby status in 1983. The project has been on standby since 1981.



*Employees monitor operations at the newly modernized Borger, Texas, refinery, which completed its first full year of operation in 1983. The company continued to lower its raw material costs by processing more high-sulfur crude oils at both the Borger and Sweeny, Texas, refineries during the year.*



## Petroleum Products

Earnings from petroleum refining, marketing and transportation operations increased in 1983. Net income was \$86 million, compared with \$65 million in 1982. In addition, equity in earnings from companies related to Petroleum Products amounted to \$9 million, compared with \$8 million in 1982. Earnings in 1983 benefited from higher operating margins, resulting from improved efficiencies.

Phillips continued to lower its raw material costs by processing more high-sulfur crude oils at the company's modernized refineries at Borger and Sweeny, Texas.

Phillips operated its refineries at 88 percent of crude oil capacity in 1983. This compares with a utilization rate of 81 percent in 1982. The company's higher refinery utilization rate reduced energy use and operating costs for each barrel of crude oil and natural gas liquids processed.

The company continued to meet consumer needs although the closing of the Kansas City, Kan., refinery in 1982 removed 80,000 barrels a day of capacity from Phillips refining system. The company supplied the area served by the Kansas City facility through the output of the two Texas refineries and an extensive Midwest distribution system.

Phillips sales of gasoline were slightly lower than a year ago, but distillates volumes were up 4 percent from the 1982 level. Phillips average wholesale prices at the end of 1983 were 9 cents a gallon lower for automotive gasoline and 8 cents a gallon lower for distillates, compared with the end of 1982. U.S. sales of natural gas liquid products, primarily used for blending into motor fuel, home heating fuel and petrochemical manufacture, were down 2 percent from a year earlier. The decline was primarily the result of lower propane sales volumes, reflecting in part the impact early in the year of warmer weather on industry demand. Sales volumes of turbine fuel were lower in 1983 because

of reduced sales to commercial airlines. Aviation gasoline sales volumes were about the same as a year earlier. The company remains a leading supplier of aviation gasoline and turbine fuel to fixed-base operators and a major supplier of propane for rural heating, crop drying and petrochemical manufacturing markets.

Overall, Phillips sales of all petroleum products fell 2 percent during the year. Total industry petroleum demand fell 1 percent in 1983.

### Feedstock Supplies

U.S. crude oil accounted for 85 percent of crude runs, compared with 86 percent in 1982. Natural gas liquids accounted for 41 percent of Phillips total refinery runs, compared with 39 percent in 1982. Phillips extensive use of natural gas liquids in gasoline and other products is a key factor in the company's ability to reduce raw material costs and to produce more high-value products.





A special dome helps conserve vapors inside this gasoline tank at the company's East St. Louis, Ill., terminal. The dome also serves as an environmental safeguard and is an example of many conservation and environmental facilities in place throughout the company's operations.



Combined runs of crude oil and natural gas liquids processed in company refineries were down slightly in 1983, primarily as a result of closing the Kansas City refinery. However, most of the decline was offset by increased processing in the company's remaining refineries and natural gas liquids processing facilities.

### Transportation

Two Phillips tankers were modified to serve as shuttle tankers to move oil to markets from the Maureen field in the

U.K. sector of the North Sea. The *Phillips Oklahoma* and *Phillips Arkansas*, both 53,000-ton vessels, were equipped with special loading systems for the stormy weather conditions that often prevail in the North Sea. The vessels began delivering crude oil to ports in northwest Europe in October.

Early in the year, the *Philmac Venturer*, a new 40,000-ton tanker, began transporting heavy, asphaltic crude oil from Venezuela to the Philmac Oils, Ltd., bitumen refinery at Eastham, England. This eliminated costly transportation in chartered ships, which previously carried the oil to England. Philmac is a joint-venture company owned 50 percent by Phillips.

*The Phillips Oklahoma and Phillips Arkansas are fitted with special loading systems to enable them to take on crude oil from the company's Maureen field in the U.K. sector of the North Sea. The loading systems are able to withstand stormy weather conditions, which are prevalent in the North Sea. The two tankers began carrying crude oil to ports in northwest Europe late in the year.*



*Early morning traffic pulls into this newly constructed Phillips service station, built as a model for other Phillips-branded stations. In 1983 the company began a broad-scale program to upgrade stations, as well as to enhance the Phillips 66 brand.*



## Petroleum Products

In pipeline operations, the 275-mile crude oil pipeline from central Oklahoma to the Borger refinery was expanded. The expansion will supply more high-sulfur crude oils to the modernized Borger refinery. In 1983 Phillips became operator of the 1,300-mile Dixie Pipeline System, a major petroleum products pipeline extending from the Texas Gulf Coast through the Southern and mid-Atlantic states. Phillips owns 14.5 percent of the pipeline system.

### Refining

A \$400 million modernization of the Borger refinery reached full operation in early 1983. The new units include an atmospheric residual desulfurization unit, which allows the refinery to process more lower cost, heavier crude oils with high sulfur content. With the start-up of the new units, the Borger refinery can now

use 100 percent of its capacity to process high-sulfur crude.

The new units at Borger make Phillips one of the industry leaders in refining high-sulfur crude oils. For the year, 71 percent of the crude processed in the company's refineries was the high-sulfur variety. This was up from 56 percent a year earlier. Overall, Phillips has the capability to utilize more than 80 percent of its total crude oil refining capacity for high-sulfur crudes.

The cost of crude oil delivered to Phillips U.S. refineries was 10 percent lower than in 1982 and was the result of increased use of lower cost, high-sulfur crude oils at the Borger and Sweeny refineries, plus a general decline in world oil prices. The cost of natural gas liquids to Phillips refineries increased 5 percent during the year.

Natural gas liquids processed at the Borger and Sweeny refineries and at a joint-interest fractionation facility at Conway, Kan., averaged 187,000 barrels a day. Overall, natural gas liquids runs increased 4 percent, compared with 1982.

Increased emphasis on safety resulted in 44 percent fewer injuries and 92 percent fewer lost-time accidents at the company's refineries in 1983, compared with 1982. At the end of the year, the Borger refinery achieved a milestone of 3.5 million man-hours of operation without a lost-time injury.

### Marketing

In response to an increasingly competitive marketing climate, the company began a broad-scale program to enhance the Phillips 66 brand. Emphasis is being placed on upgrading branded service stations in order to improve profitability. About 95 percent of Phillips petroleum products are marketed by jobbers, who are independent business people. These jobbers are being encouraged to modernize their stations and to





A station attendant fills an automobile with gasoline in the full service section of this Phillips station. At right, a customer inserts his credit card into a card reader for service and billing without assistance.



maintain higher standards in such areas as station appearance, cleanliness and customer service.

To encourage renovations of jobber-owned stations, the company redesigned and rebuilt several company-owned service stations during the year and announced plans for similar renovations in 1984. New station concepts and convenience store manuals are also being developed for jobbers.

During the year, the company initiated a major credit card solicitation program to attract new accounts and removed a 3 percent processing fee on credit card invoices submitted to the company by jobbers. Phillips also reduced the fee charged on bank credit card sales.

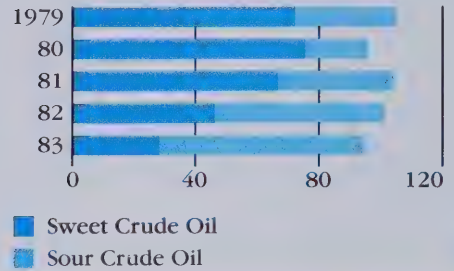
Also as part of its new marketing program, the company is intensifying its national advertising program to focus more directly on selling Phillips 66 gasoline, motor oil, tires and batteries.

*A business aircraft is fueled with the company's turbine fuel. Phillips remains a leading supplier of aviation gasoline and turbine fuel.*

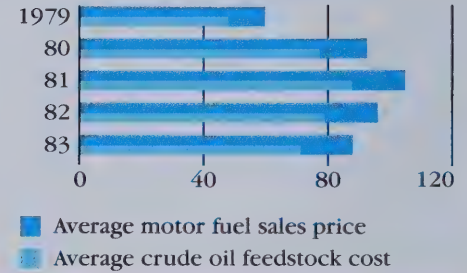


## Petroleum Products Statistics

**Refinery Crude Oil Runs—  
Sweet to Sour**  
(Millions of Barrels)

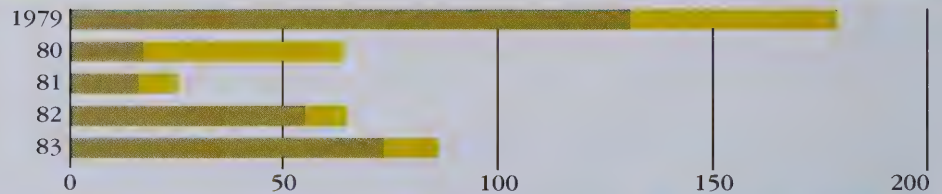


**Crude Oil Feedstock Cost to  
Motor Fuel Sales Price**  
(Cents per Gallon)



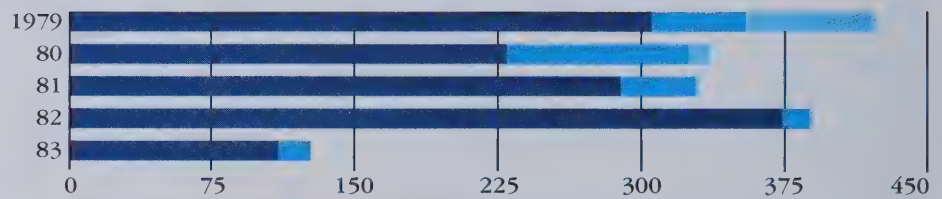
**Net Income**  
(Millions of Dollars)

■ United States  
■ Outside U.S.



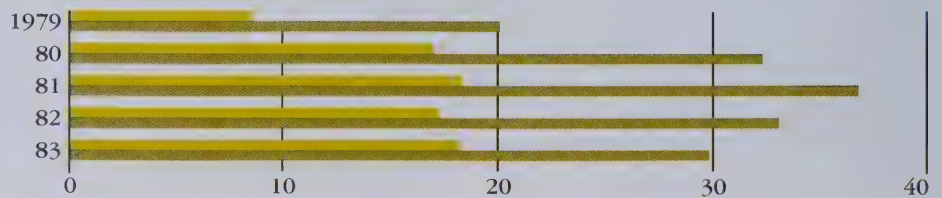
**Capital Expenditures**  
(Millions of Dollars)

■ U.S. Refining  
■ U.S. Marketing and Transportation  
■ Outside U.S.



**Average Cost of  
Refinery Feedstocks**  
(Dollars per Barrel)

■ Natural Gas Liquids  
■ Crude Oil





**Feedstocks Processed and Products Produced**

Average Percent

	1983	1982
<b>Feedstocks</b>		
Domestic crude oil	49%	52
Imported crude oil	9	8
Natural gas liquids	41	39
Miscellaneous hydrocarbons	1	1
	100%	100

**Output**

Automotive gasoline	38%	37
Chemical feedstocks	14	12
Distillates	21	22
Consumer liquefied petroleum gas (LPG)	16	16
Other products	11	13
	100%	100

**Refinery Crude Oil and Natural Gas Liquids Capacities and Runs—Average Barrels Daily**

	Crude Oil		Natural Gas Liquids	
	Capacity	Runs	Capacity	Runs
<b>1983</b>				
Sweeny, Texas	175,000	153,000	81,000	70,000
Borger, Texas	95,000	86,000	105,000	95,000
Woods Cross, Utah	25,000	21,000	—	—
Conway, Kansas	—	—	42,000	22,000
	295,000	260,000	228,000	187,000
<b>1982</b>				
Sweeny, Texas	175,000	145,000	81,000	70,000
Borger, Texas	95,000	78,000	105,000	91,000
Kansas City, Kansas*	80,000	31,000	—	—
Woods Cross, Utah	24,000	23,000	—	—
Conway, Kansas	—	—	42,000	18,000
	374,000	277,000	228,000	179,000

\*Closed August 1, 1982.



*C. P. Tai, a Phillips employee, looks out across the company's new high-density polyethylene plant in Singapore. When production begins in 1984, the plant will be capable of producing some 176 million pounds of high-density polyethylene a year for markets in the Far East.*



## Chemicals

The company's chemicals operations improved in 1983 as the economy began to recover from the recession. Sales volumes and profit margins were up in many product lines. Also contributing to higher earnings were stringent cost-reduction efforts, profits from the sale of subsidiaries and improved operating efficiencies in the company's plants and facilities.

Net income for Chemicals in 1983 was \$40 million, compared with \$14 million in 1982. An additional \$5 million resulted from equity in earnings from affiliated companies related to Chemicals. This compares with \$19 million in 1982.

### **Petrochemicals, Specialty Chemicals and Fertilizer**

Sales and revenues from olefins were above 1982 levels, although rising feedstock costs resulted in lower margins. Olefins—primarily ethylene—are the major feedstocks used to manufacture plastics.

Sales and revenues from cyclics were up for the year. Phillips is a major producer of cyclics, which are used in the manufacture of synthetic fibers for home furnishings and apparel.

Demand for cyclohexane, a feedstock in the manufacture of nylon, was up from a year ago. Paraxylene sales volumes also were up. However, prices for this synthetic fiber feedstock were lower.

The Phillips Puerto Rico Core Inc. petrochemical complex at Guayama operated at capacity in 1983, compared with 94 percent in 1982. The facility produces a variety of petrochemical products and motor fuel from naphtha.

High-purity normal pentane facilities were completed in 1983 at Phillips Sweeny, Texas, refinery. The new facilities more than double the company's production capacity of the product. Normal pentane is used primarily as an expanding agent in the manufacture of polystyrene food packaging materials.

The company's extractive chemicals business continued to be affected by the decline in oil

and gas drilling. During the year, the company and its partner sold their interests in Custom Oil Recovery Technology, which was engaged in the business of well treatment and chemicals for enhanced oil recovery. Sales of drilling mud additives were down from 1982 levels, reflecting the drop in drilling activity. The company's mining chemicals business, organized in 1982 to market mineral-processing chemicals, showed steady growth in sales during the year.

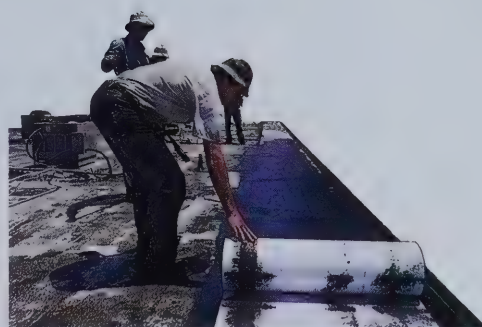
Catalyst Resources, Inc., a subsidiary established in 1982 to produce and market catalysts for polymerization processes, began marketing several new catalysts developed by Phillips. One catalyst is used to produce a super-strength film resin and a high-density bottle resin with outstanding crack resistance.





*Phillips mining chemicals specialists Bob Parlman (left) and Daryl Bunch test the company's newest line of mineral-processing chemicals.*

*At a condominium development in Arizona, rooftops are layered with the company's new nonwoven Rufon fabric. Rufon provides a strong, waterproof membrane for flat roofs.*



*A telephone worker protects fiber optics communication cables by encasing them in the company's polyethylene innerduct. This is the newest market for Phillips Driscopipe. During the year, revenues for Driscopipe were up as the gas distribution and housing markets improved, oil field drilling picked up, and municipal and industrial use increased.*



*Employees monitor operations at a new resin development plant, which completed its first full year of operation in 1983 at the company's Houston Chemical Complex. The company's plastic resins business benefited from higher sales volumes and higher sales revenues in 1983.*



## Chemicals

Revenues were lower in the company's fertilizer business, primarily as a result of lower U.S. sales prices and reduced sales volumes in foreign markets. In addition to lower prices, U.S. sales volumes were affected by weather conditions and the federal government's payment-in-kind program, which pays farmers for not planting certain crops.

### Plastics

The company's plastic resins business benefited from higher sales volumes in 1983. Sales revenues were 13 percent higher than in the previous year.

Sales volumes of Marlex polyethylene and polypropylene increased over 1982 levels. A new high-density polyethylene plant in Singapore was nearing completion at the end of 1983 and was scheduled to begin operating early in 1984. The plant has a capacity of 176 million pounds a year. Phillips has a 60-percent interest.

Sales volumes increased for the company's Ryton engineering plastic during the year. In 1983 Phillips and a Japanese firm

formed a joint-venture company in Japan to develop new Ryton resins and new process technology. Ryton also had new applications in the fiber and film areas.

Sales volumes of K-Resin were above the level of a year ago. This butadiene styrene polymer is used in container packaging and film applications.

### Rubber Chemicals

Sales volumes were up in the company's carbon black business, but synthetic rubber sales were down slightly. Although demand continued to be low for both products, the recovery of the U.S. automotive industry helped stimulate sales for both late in the year.

The company continued to reduce costs and improve efficiencies in its rubber chemicals operations. During the year, a carbon black plant in Colombia and a joint-interest rubber plant in Belgium were sold. A carbon black and synthetic rubber facility in Australia was shut down.

### Consumer Products

Revenues were up for Phillips Driscopipe, Inc. Demand for the company's polyethylene pipe increased as the gas distribution and housing markets improved,

oil and gas drilling activity picked up late in the year, and municipal and industrial use increased. The company's plastic pipe also entered a new market as innerduct for fiber optics communication cables.

Revenues for Phillips Fibers Corporation were up in 1983. Sales of nonwoven industrial fabrics for asphalt reinforcement improved primarily as a result of the federal government's five-cents-a-gallon sales tax on gasoline, which stimulated highway improvements. There also was increased demand for fibers and nonwoven fabrics used by the furniture, construction, apparel and automobile industries.

During the year, the company sold the stock of H. P. Smith Paper Co. This company manufactured release paper, film and specially coated papers.

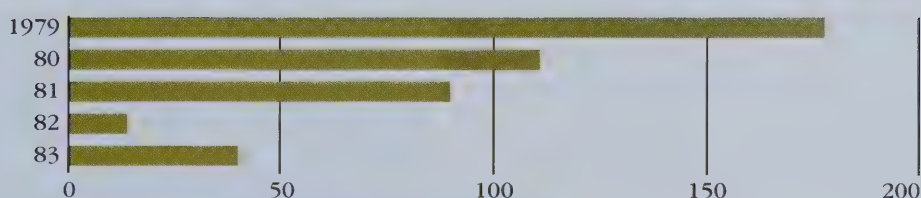
The stock of another subsidiary, Interplastic Corporation, was also sold in 1983. This company made unsaturated polyester resins for reinforced plastics.



## Chemicals Statistics

### Net Income

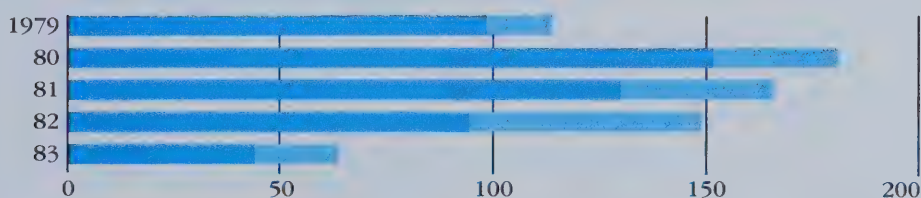
(Millions of Dollars)



### Capital Expenditures

(Millions of Dollars)

■ United States  
■ Outside U.S.



### Principal Chemicals Plants or Expansions Completed During 1983

Product	Location	Phillips Interest	Additional Gross Annual Capacity
High-density polyethylene <sup>(1)</sup>	Tarragona, Spain	45%	132,000,000 pounds
Polyphenylene sulfide	Borger, Texas	100	2,500,000 pounds

### Principal Chemicals Plants or Expansions Under Construction or Authorized at Year-End

Product	Location	Phillips Interest	Additional Gross Annual Capacity
High-density polyethylene <sup>(1)</sup>	Singapore	60%	176,000,000 pounds
Soltex <sup>(2)</sup>	Conroe, Texas	100	18,000,000 pounds
Synthetic fibers	Spartanburg, South Carolina	100	8,900,000 pounds
Synthetic fibers	Seneca, South Carolina	100	8,200,000 pounds

(1) New plant.

(2) Purchase of existing plant.



*Phillips-developed single cell protein, a food and feed supplement, is an example of one of the long-range areas of research the company has entered. In addition to biotechnology, the company is also doing research in the areas of advanced materials, nuclear fusion and photovoltaics.*



## Research and Development

**R**esearch and Development expanded its research efforts in 1983 toward long-range, high technology research in the areas of advanced materials, biotechnology, nuclear fusion and photovoltaics. The benefits from these new technologies are expected to create a strong competitive base for the company in the future.

In the shorter term, Phillips researchers continued to focus on improving products and processes, including developing more efficient methods for processing heavy crude oils, like some of those found offshore California.

### Energy Resources

Research in the area of energy resources concentrated on developing new techniques and technologies to aid the search for and development of oil, natural gas and alternate energy.

During the year, Phillips researchers developed new polymers to increase oil production from older fields. The

polymers, used in sophisticated oil recovery projects, are injected into the reservoir followed by vast quantities of water. In 1983 Phillips researchers made significant progress in developing water-soluble polymers that can withstand the hostile environments found in deep hydrocarbon reservoirs. These polymers are now undergoing field tests designed to lead to early commercialization.

More accurate and detailed geological information was achieved during the year as a result of a Phillips-developed seismic method that sets up seismic waves in the earth by force of a heavy weight rather than by dynamite. The seismic waves are then analyzed to obtain a geological picture of the underground structure.

Other nonseismic methods for finding oil and natural gas were also developed during the year. These methods analyze soil to determine what drilling prospects have the highest potential for finding petroleum.

Phillips researchers made significant progress in developing technology to waterflood the

Ekofisk field in the Norwegian North Sea. The company and its co-venturers expect to recover an additional 170 million barrels of crude oil over the life of the field as a result of the waterflood.

### Petroleum and Chemical Processing

New pilot plants at a Process Development Center were completed at the company's research complex in 1983. Up to 35 pilot plants, which can be housed in the facility, will be used to study refining, petrochemical and separations techniques and to develop new and more efficient processes. Researchers are directing their efforts toward developing new refining and petrochemical catalysts.

Progress was made in upgrading heavy crudes for processing in conventional refineries. These heavy crudes are more abundant and less costly than other crudes. In particular, emphasis was given to upgrading heavy California crude, which has been found in



*Plastics technician Ernest Roberts works with an automotive fuel tank that is made from a Phillips plastic resin that has been blow molded into shape. At right, technician Lester Slaughter trims the seams of the tank after it comes out of the blow-molding machine, while engineer Jim Snell looks on.*



*Phillips senior scientist Henry Hsieh is one of a team of researchers working to increase production from older oil fields. Part of this research is aimed at developing water-soluble polymers for the hostile environments of deep hydrocarbon reservoirs.*

parts of the company's Point Arguello oil field.

A new sulfur chemicals pilot plant at the company's research center completed its first full year of operation in 1983. The plant produces small quantities of potentially commercial products and manufactures high-priced, low-volume specialty chemicals.

### **Polymers and Materials**

New developments in polymer and materials research occurred in several areas.

Researchers developed a manufacturing process for a new line of polyethylene catalysts. The catalysts, to be commercially produced by a company subsidiary, create new polymers that yield a superior line of resins for blow molding and film applications.

Improvements in technology for Phillips Ryton engineering plastic resins led to the commercialization of a high-performance fiber resin for environmental filter bags and the first commercial thermoplastic composition for encapsulating fragile electronic parts. Also near commercialization are Ryton



*Chemists Mark Woods (left) and Joe Figard examine a thin-film solar cell. Phillips is one of a number of companies working to develop photovoltaics, an energy source that uses various forms of silicon to absorb the sun's light and create electricity directly from it. Photovoltaics is considered one of the most promising energy sources for the future.*



## Research and Development

resins for high-performance film products used in electrical insulation and magnetic tape applications.

A new reactor to produce carbon black was developed in 1983 to replace the tangential reactor, which was developed by Phillips in the 1940s and has been a standard of the carbon black industry since then. Products produced by the new Phillips-developed reactor offer improved characteristics and properties for the tire industry.

### High Technology

Phillips biotechnology research in 1983 was segmented in six areas: recombinant DNA and genetic engineering, single cell protein, chemicals, geobiosciences, fermentation technology and enzymes.

During the year, the company began pilot plant production of single cell protein from sugar, molasses, glucose, biomass and

ethanol. Previously only methanol could be used as a feedstock. New markets for single cell protein, a feed and food supplement, were identified during the year. In another area of biotechnology, a new pilot plant to produce recombinant DNA will be completed in 1984 at the company's research center.

In a joint program with GA Technologies, Inc., Phillips researchers are working to develop an improved nuclear fusion device to obtain a more compact, high-density energy source. Results in 1983 of this experimental work offer the potential for more expedient development of fusion power generation, compared with other approaches under study.

Advanced materials studies by Phillips researchers are aimed at developing new technology in the areas of high-value performance materials. Major developments were made to produce and test applications for a new family of long fiber, reinforced, thermoplastic, composite materials based on Phillips Ryton engineering plastic resins and other thermoplastic resins. These composites have

properties that include unusual impact toughness, high temperature resistance and resistance to corrosion and flammability. Potential product applications include lightweight aerospace structures, electronic and electrical components, valve and pump parts, pipe fittings and mechanical parts.

### Patents

In 1983 Phillips Research and Development received 268 U.S. patents, making the company one of the leaders in patents granted. At the end of the year, Phillips had a total of 5,480 active U.S. patents and 1,642 active foreign patents. Licensing revenue increased 51 percent over 1982. During the year, the company was awarded a patent for crystalline polypropylene, a plastic discovered by the company in the early 1950s. The delay resulted from legal proceedings to determine the inventors. The plastic is used in a variety of products, including indoor-outdoor carpet and artificial turf.

*An Olympic hopeful competes in the U.S. Diving Championships, hosted by Phillips in August at Bartlesville, Okla. As national sponsor of U.S. swimming and diving, Phillips support helps athletes compete in national and international events in preparation for the 1984 Olympic games in Los Angeles.*



## Corporate Citizenship

**C**ontributing to the well-being of the communities where Phillips operates remains a major goal of the company. As part of this effort, Phillips provides financial support to numerous youth, civic, cultural, educational and health and welfare organizations. In 1983 this support amounted to \$10 million.

### Community Involvement

Most of the U.S. swimmers and divers who will compete in the 1984 Olympics in Los Angeles have benefited from the company's long-standing support of swimming and diving. During the year, Phillips extended its national sponsorship of U.S. swimming and diving through 1988. Phillips support helps U.S. athletes compete in national and international meets, preparing them for the Olympic games.

Dedication of the Borger, Texas, community center, for which Phillips contributed \$1.5 million, was held in December. Phillips has 2,500 employees in the Borger area. Over the past

several years, the company has also contributed funds to help build community facilities in Sweeny, Texas, and in Bartlesville, Okla. Phillips has a large number of employees in both areas.

### Educational Support

Recognizing that improving education in the United States has become a national issue, Phillips contributed approximately \$7 million in 1983 in support of education and educational films. Of this, more than \$1 million was paid to 450 colleges and universities through the Matching Gift Plan. Under this plan, the company gives \$2 for every \$1 donated by an employee, retiree or director. The maximum gift matched is \$5,000.

An educational film series, entitled "Challenge of the Unknown," will be distributed in the fall of 1984, along with related teaching materials. The series, funded by Phillips, is aimed at encouraging young people to study mathematics by dramatizing the many ways mathematics is used to solve problems, including problems encountered in everyday life. The company's two other film

series—"American Enterprise," which examines the country's economic system, and "Search for Solutions," designed to interest young people in science—are seen by approximately two million students a month.

### Environmental Protection

In 1983 Phillips approved capital expenditures of \$33 million to protect and improve the environment. In addition, \$152 million was spent during the year to operate and maintain existing environmental control systems.

### Energy Conservation

The year marked the 10th anniversary of Phillips formal energy conservation program. As a result of improved energy efficiencies, the company saved the equivalent of 2.8 million barrels of oil during the year. Since 1973, the company's rate of energy use has been reduced by 30 percent or by 19.8 million barrels of oil.



*A 220-page anniversary book and square dancing in Borger, Texas, were just two of the ways the company's 66th birthday was celebrated in 1983.*



## People

Nineteen eighty-three marked Phillips 66th anniversary, an important date in view of the company's trademark. In addition to anniversary observances at many offices and plants, a 220-page anniversary book, entitled "Phillips—The First 66 Years," was presented as a gift to all employees and retirees.

### Employment

At the end of 1983, Phillips employed 28,400 people, down 4 percent from the previous year. Almost all of the reduction was the result of normal attrition and the sale of facilities or subsidiary companies. Minorities accounted for 13 percent of U.S. employees, about the same as in 1982.

### Training

Employee training aimed at improving job performance remains a major program of the company. In 1983 there were 21,000 participants in company-sponsored training programs.

### Employee Participation

In 1983 employees received \$922,000 for their suggestions to improve productivity and



enhance the profitability of the company. Four suggestions received \$25,000 awards, the maximum award given under the Suggestion Plan. During the year, the Suggestion Plan had first year tangible savings of \$11.7 million.

At the end of 1983, there were 95 Participative Action Teams companywide, up from 48 a year earlier. The teams, made up of employees in the same work area, meet regularly to solve problems related to their work. Since the program's inception in 1981, Participative Action Teams have reduced the company's costs by \$2 million.

### Safety

In 1983 Phillips continued its strong commitment to safety. The lost work-day cases were 29 percent lower for the year, with a rate of 0.37 accidents per 200,000 employee hours worked. The accident rate for every one million miles driven was 27 percent below the frequency rate for 1982.

## Financial Review

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### Oil and Gas Operations

*Consistent with Financial Accounting Standards Board (FASB) Statement No. 69, "Disclosures about Oil and Gas Producing Activities," and in accordance with regulations of the Securities and Exchange Commission (SEC), the company is making certain disclosures about its oil and gas exploration and production operations. While this information was developed with reasonable care and disclosed in good faith, it is emphasized that some of the data are necessarily imprecise and represent only approximate amounts because of the subjective judgments involved in developing such information. Accordingly, this information may not necessarily represent the present financial condition of the company or its expected future results.*

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## Management's Discussion and Analysis

### Capital Resources and Liquidity

#### Financial Position

The consolidated balance sheet at December 31, 1983, presented *below* in a summarized financial position format, is compared with the financial position of each of the three preceding years expressed in percentages.

At December 31, 1983, Phillips working capital was \$22 million, a decline of \$175 million from the \$197 million reported in 1982. The working capital decrease reflects increased taxes and other accruals of \$187 million and decreased inventories of \$91 million, which were partly offset by increased cash items of \$113 million. The current cost of inventories at December 31, 1983, approximated \$745 million more than the stated value of inventories determined under the last-in, first-out (LIFO) method. This excess is not reflected in working capital.

Working capital at December 31, 1983, includes cash and time deposits of \$906 million and accrued taxes of \$1.26 billion. Most taxes are paid in the year accrued, except in Norway. Norwegian taxes are partly paid in October of the year in which accrued, and the balance is paid in April of the following year. Cash items must be accumulated during the intervening periods to satisfy these Norwegian taxes.

Over the past three years, the company has invested \$5.94 billion in properties, plants and equipment; purchased the stock of General American Oil Company of Texas for \$1.14 billion; paid dividends of \$1.01 billion; made investments

totaling \$139 million (mainly in affiliated companies); retired debt of \$210 million; and required \$240 million for other purposes. These expenditures have been funded primarily by funds from operations totaling \$5.87 billion or 68 percent of the needed funds. To provide the balance of the funds, the company increased long-term debt \$1.70 billion; drew down working capital \$567 million; and obtained funds from other sources \$542 million, principally the sales of investments and properties.

#### Capital Expenditures

Phillips worldwide operations are capital intensive, requiring significant expenditures over long construction periods. Capital expenditures for properties, plants and equipment, and the investment in General American Oil Company, totaled \$2.37 billion in 1983, compared with \$2.13 billion in 1982 and \$2.66 billion in 1981. Over the past three years, significant expenditures have been made to modernize and improve the feedstock processing flexibility of Phillips refineries, for the development of the Maureen field and the Ivory Coast, and for the acquisition of leases offshore California. Geographically, during this period, three-fourths of the capital expenditures were made in the United States and one-fourth outside the United States. Capital expenditures for Petroleum Exploration and Production and Gas and Gas Liquids operations accounted for 69 percent of the total; Petroleum Refining, Marketing and Transportation operations—14 percent; Chemicals operations—6

### Financial Position Summary

At December 31	Millions of Dollars		Percentages		
	1983	1983	1982	1981	1980
Working capital	\$ 22*	0.2%	2.1	(2.3)	8.7
Investments	456	4.5	4.8	6.4	5.5
Properties, plants and equipment (net)	9,549	93.5	91.1	94.0	84.2
Deferred charges	186	1.8	2.0	1.9	1.6
Total financial position assets	10,213	100.0	100.0	100.0	100.0
Long-term debt	2,198	21.5	20.3	12.8	10.4
Other liability items	1,866	18.3	18.2	18.9	16.3
	4,064	39.8	38.5	31.7	26.7
Stockholders' equity	\$ 6,149	60.2%	61.5	68.3	73.3

\*Working capital is current assets (\$2,903 million) minus current liabilities (\$2,881 million).

percent; Minerals—3 percent; and Other—8 percent.

Phillips expects that capital expenditures for 1984 will be approximately \$1.8 billion, 58 percent higher than 1983 expenditures of \$1.14 billion, which excludes the acquisition of General American Oil Company. The major portion of capital expenditures will be devoted to Exploration and Production, primarily for the development of offshore California and assessing undeveloped acreage in the Gulf of Mexico. Gas and Gas Liquids expenditures will be primarily devoted to the expansion of gas-gathering systems. Other capital expenditure projects include: continued expenditures in exploration and production to support Phillips operations in the North Sea including the Ekofisk field waterflood, offshore the People's Republic of China, offshore the Republic of Ivory Coast, and in the remodeling of several marketing outlets. Capital expenditures for Chemicals operations will be to provide growth in the manufacture of catalysts and specialty chemicals.

### Funds Availability

The company engaged in both short-term and long-term financing during the year. The company issued commercial paper, and it sold receivables to Phillips Petroleum Credit Corporation (Credit), a wholly owned non-consolidated subsidiary, which also issued commercial paper. Short-term debt outstanding at year-end was \$111 million for the company and \$329 million for Credit, compared with \$152 million and \$294 million, respectively, at year-end 1982. Short-term notes issued to acquire General American Oil Company have been retired. Long-term debt increased \$382 million in 1983 primarily due to a \$250 million 11¼ percent debentures issue and \$120 million in borrowings under floating-rate credit facilities to finance U.K.

exploration and development activities.

The company has \$1 billion under a credit agreement, which extends through mid-1989; two agreements totaling \$550 million, which extend through mid-1990; and \$235 million in committed lines of credit available through mid-1984. The company believes that the committed lines could be renewed upon similar terms, if required, upon expiration. In total, these credit facilities are available for short- or medium-term borrowing and to support the issuance of the company's and Credit's commercial paper and other short-term debt. At year-end, 19 percent of such facilities were so utilized. In addition, there remains registered \$250 million of debt securities for sale on a delayed or continuous basis available through February 1985 under a registration statement previously filed under the "shelf registration" rule. At December 31, \$131 million remained undrawn under credit facilities arranged to finance U.K. development, all or part of which may be cancelled in 1984. Funds from operations are expected to provide substantially all near-term ongoing requirements, with little increase in debt anticipated. Including the available credit facilities enumerated above, management believes that sufficient reserve borrowing capacity currently exists in the public and private markets to fund any deficiencies that may arise.

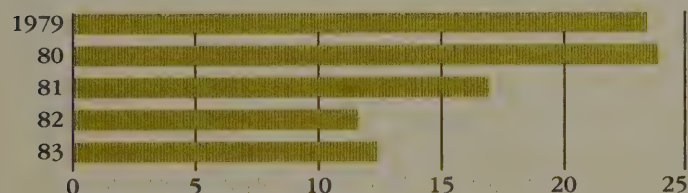
### Results of Operations

Consolidated net income for 1983 of \$721 million was up 12 percent from 1982 but down 18 percent from 1981.

Results for 1983 reflected significantly higher crude oil production in the United States due to the company's acquisition of General American Oil Company, which was largely offset by the effect of

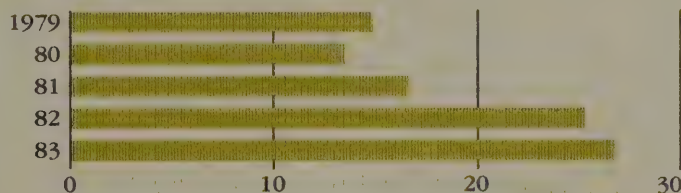
### Return on Average Stockholders' Equity\*

(Percent)



\*Net income divided by average stockholders' equity.

### Percent of Debt to Capital\*



\*Debt divided by debt plus stockholders' equity. Debt is long-term debt plus obligations under capital leases.



lower crude oil prices in 1983. Overseas the company began crude oil production in mid-September from the Maureen field in the U.K. sector of the North Sea. There was a \$32 million benefit in 1983 from the reduction in a financial reserve covering the eventual dismantlement of certain facilities associated with the Greater Ekofisk Development in the Norwegian North Sea, plus a \$68 million benefit arising from a favorable settlement agreement in the San Juan Basin gas pricing proceedings. These items were offset to the extent of \$75 million by the write-off of certain foreign properties and anticipated losses from the sale or shutdown of various petrochemical operations. Reductions in LIFO inventory added \$45 million to earnings in 1983, compared with \$72 million in the previous year. Foreign currency transaction gains were \$30 million in 1983, compared with gains of \$61 million in 1982 that included a \$40 million gain due to the adoption of new foreign currency translation accounting procedures. Foreign currency gains in 1981 amounted to \$42 million.

Crude oil prices have increased substantially during the last decade, but during the past three years—since the remaining price controls on U.S. crude were lifted in January 1981 to end the phased decontrol which began in 1979—crude prices have moved steadily downward in a marketplace restored to the forces of supply and demand. The decline in prices continues because of surplus crude oil supplies worldwide. Increases in the prices for natural gas, which are still under U.S. price controls, reflect increases permitted under the Natural Gas Policy Act.

Average 1983 sales prices and percentage fluctuations from 1982 follow: U.S. crude oil, \$26.64

per barrel, down 8 percent; average foreign (excluding government obligations) crude oil price, \$30.09 per barrel, down 12 percent; U.S. natural gas, \$2.39 per thousand cubic feet, up 14 percent; average foreign natural gas price, \$3.78 per thousand cubic feet, down 11 percent; U.S. natural gas liquids, \$17.15 per barrel, up 8 percent; wholesale prices for automotive gasoline, \$.87 per gallon, down 8 percent; and distillates, \$.82 per gallon, down 12 percent.

### Petroleum Exploration and Production

Phillips Petroleum Exploration and Production operations earnings for 1983 were \$406 million, compared with \$416 million in 1982 and \$430 million in 1981.

Domestic earnings declined to \$286 million in 1983, compared with \$331 million in 1982 and \$351 million in 1981. The 14-percent decline in earnings from 1982 was primarily due to lower crude oil sales prices, higher leasehold impairment expenses, and higher depreciation, depletion and amortization principally resulting from the acquisition of General American Oil Company. Partly offsetting these negative factors were higher crude oil production, higher natural gas prices, significantly lower dry hole expense and lower crude oil excise taxes due to lower crude prices.

Earnings abroad were \$120 million in 1983, compared with \$85 million in 1982 and \$79 million in 1981. Earnings in 1983 improved mainly due to a \$32 million benefit from reducing the reserve for Ekofisk dismantlement, higher crude oil production and lower dry hole expense. These improvements were partly offset by lower crude prices, lower natural gas prices, and lower foreign currency transaction gains involving the Norwegian krone.

### Net Income and Income Taxes

Year	Net Income		Income Taxes	
	Millions of Dollars	Percent Change from Prior Year	Millions of Dollars	Effective Tax Rate
1983	\$ 721	12%	\$1,556	68%
1982	646	(27)	1,454	69
1981	879	(18)	1,792	67
1980	1,070	20	2,170	67
1979	891	24	1,245	58

### Gas and Gas Liquids

Phillips Gas and Gas Liquids operations earnings for 1983 were \$274 million, compared with \$276 million in 1982 and \$324 million in 1981. Higher production and higher average natural gas liquids sales prices in 1983 were offset by increased natural gas purchase costs, higher depreciation expense, and higher taxes as a result of lower investment tax credits.

### Petroleum Refining, Marketing and Transportation

Phillips Petroleum Refining, Marketing and Transportation operations earnings for 1983 increased to \$86 million, compared with \$65 million in 1982 and \$25 million in 1981.

Improved margins resulting from lower refinery throughput costs and lower raw material costs from processing more high-sulfur crude oils were the key contributors to the earnings improvement in 1983. Partly offsetting these improvements were generally lower sales volumes, lower average sales prices and higher taxes resulting from lower investment tax credits.

### Chemicals

Earnings for Phillips Chemicals operations for 1983 were \$40 million, compared with \$14 million in 1982 and \$90 million in 1981. Higher sales volumes, particularly in plastic resins and ethylene, lower feedstock costs and operating expenses were the principal reasons for the improvement in 1983. Prices remained depressed reflecting worldwide economic conditions.

The elimination of unprofitable or marginally profitable businesses, which began in 1982, continued in 1983.

### Minerals

Minerals activities generally remained in the exploration, development and start-up phases and therefore continued to reflect losses of \$39 million in 1983, compared with \$55 million in 1982 and \$61 million in 1981. Lower exploration expenses in 1983 were the principal reason for smaller losses. Phillips continues to pursue opportunities for alternate fuels with its operations in lignite, geothermal and oil shale. Uranium remains unchanged since 1981 when it was placed on a standby status.

## Five-Year Summary of Net Income

Years Ended December 31

	Millions of Dollars				
	1983	1982	1981	1980	1979
<b>Petroleum Exploration and Production</b>					
United States	\$286	331	351	255	169
Outside United States	120	85	79	281	216
	406	416	430	536	385
<b>Gas and Gas Liquids</b>					
United States	271	272	328	327	114
Outside United States	3	4	(4)	5	5
	274	276	324	332	119
<b>Petroleum Refining, Marketing and Transportation</b>					
United States	73	55	16	17	131
Outside United States	13	10	9	47	48
	86	65	25	64	179
<b>Worldwide Petroleum</b>	766	757	779	932	683
<b>Worldwide Chemicals</b>	40	14	90	111	178
<b>Minerals</b>	(39)	(55)	(61)	(34)	(20)
<b>Other*</b>	(46)	(70)	71	61	50
	\$721	646	879	1,070	891

\*Other includes equity in earnings of affiliated companies and gains and losses from other corporate activities.



### Exploratory Costs and Leasehold Impairment

	Millions of Dollars		
	1983	1982	1981
Geological and geophysical expenses	\$251	243	275
Impairment of leasehold investments	188	75	40
Dry hole costs	217	333	202
Lease rentals	15	16	18
	\$671	667	535

### Other

Other operations reflected losses in 1983 and 1982 of \$46 million and \$70 million, respectively, and profits of \$71 million in 1981. Included in Other are the operating results of Walton Insurance Limited and Phillips Petroleum Credit Corporation, equity in earnings of other affiliated companies, the results of all other corporate activities including interest earned on time deposits and short-term investments, and interest expense on borrowings.

The variation in Other operations between 1983 and 1982 reflected a number of factors: equity in earnings of affiliated companies in 1983 were higher than in 1982 because 1982 included a substantial loss for the company's insurance affiliate; offsetting factors included lower interest income, less capitalized interest and higher amortization of previously capitalized interest.

### Exploratory Costs and Leasehold Impairment

Over the past five years, Phillips has charged against income a total of \$2.75 billion of costs relating to its worldwide exploration for petroleum reserves and its search for alternate energy fuels in the United States, including lignite, geothermal, oil shale and uranium. Certain exploratory costs are expensed as incurred while others are capitalized or expensed depending upon the success or failure of the venture. A comparison of the components of exploratory costs and leasehold impairment for the last three years is shown *above*.

### Provision for Income Taxes

The total provision for income taxes increased in

1983 after declining in 1982 and 1981. Higher pretax earnings is the primary reason for the increase, as effective tax rates declined slightly to 68 cents of each dollar of pretax income in 1983, compared with 69 cents in 1982 and 67 cents in 1981. The overall trend remains up from the 58 cents experienced in 1979.

In addition to income taxes, operating taxes paid by the company include the federal excise tax on U.S. crude oil, which, since its inception in 1980 has totaled \$940 million, including \$186 million in 1983.

### Foreign Currency Translation

The principal functional currency used to measure the company's foreign oil and gas operations is the U.S. dollar. Chemical operations in foreign countries use the local currency. The company's major foreign currency exposure is the Norwegian krone. This exposure is managed by purchasing forward exchange contracts or by holding krone-denominated cash investments.

### Deferred Income Taxes

Deferred income taxes increased 44 percent in 1983. The principal reasons for this increase are an excess of tax over financial depreciation and the reversal of a financial reserve for the dismantlement of certain facilities at the Greater Ekofisk Development in the Norwegian sector of the North Sea. Refer to Note 8 of notes to financial statements.

### Changing Prices and the Effects of Inflation

Supplementary information concerning the impact of inflation is provided on pages 62 and 63.

## Stock Prices and Dividends Per Share—Unaudited

Quarter	1983			1982		
	Stock Price		Dividends	Stock Price		Dividends
	High	Low		High	Low	
First	<b>\$37<math>\frac{1}{4}</math></b>	<b>29<math>\frac{3}{8}</math></b>	<b>.55</b>	<b>40<math>\frac{3}{4}</math></b>	<b>27</b>	<b>.55</b>
Second	<b>36<math>\frac{1}{2}</math></b>	<b>31<math>\frac{3}{4}</math></b>	<b>.55</b>	<b>33<math>\frac{3}{4}</math></b>	<b>28<math>\frac{1}{8}</math></b>	<b>.55</b>
Third	<b>38<math>\frac{7}{8}</math></b>	<b>33<math>\frac{1}{2}</math></b>	<b>.55</b>	<b>30<math>\frac{7}{8}</math></b>	<b>23<math>\frac{1}{2}</math></b>	<b>.55</b>
Fourth	<b>35<math>\frac{1}{2}</math></b>	<b>31<math>\frac{1}{4}</math></b>	<b>.55</b>	<b>36<math>\frac{3}{8}</math></b>	<b>28<math>\frac{3}{8}</math></b>	<b>.55</b>
<b>Closing Stock Price at December 31, 1983</b>						<b>\$34<math>\frac{1}{2}</math></b>
<b>Number of Stockholders at January 31, 1984</b>						<b>119,304</b>

Phillips common stock, the only class of voting securities, is traded primarily on the New York Stock Exchange.

## Selected Quarterly Financial Data—Unaudited

	Millions of Dollars			Net Income Per Share of Common Stock
	Sales and Other Operating Revenues	Income before Income Taxes	Net Income	
<b>1983</b>				
First	<b>\$3,590</b>	<b>413</b>	<b>129</b>	<b>.84</b>
Second	<b>3,755</b>	<b>681</b>	<b>169</b>	<b>1.10</b>
Third	<b>3,852</b>	<b>532</b>	<b>176</b>	<b>1.15</b>
Fourth	<b>4,052</b>	<b>651</b>	<b>247</b>	<b>1.61</b>
<b>1982</b>				
First	<b>3,728</b>	<b>570</b>	<b>192</b>	<b>1.26</b>
Second	<b>3,953</b>	<b>555</b>	<b>146</b>	<b>.96</b>
Third	<b>3,934</b>	<b>461</b>	<b>153</b>	<b>1.00</b>
Fourth	<b>4,083</b>	<b>514</b>	<b>155</b>	<b>1.01</b>
<b>1981</b>				
First	<b>4,120</b>	<b>814</b>	<b>271</b>	<b>1.78</b>
Second	<b>3,971</b>	<b>654</b>	<b>230</b>	<b>1.51</b>
Third	<b>3,822</b>	<b>598</b>	<b>192</b>	<b>1.26</b>
Fourth	<b>4,053</b>	<b>605</b>	<b>186</b>	<b>1.23</b>



## Selected Financial Data

	Millions of Dollars Except Per Share Amounts				
	1983	1982	1981	1980	1979
Sales and other operating revenues	\$15,249	15,698	15,966	13,377	9,503
Total taxes charged to income	2,003	1,931	2,441	2,473	1,395
Net income	721	646	879	1,070	891
Net income per share of common stock	4.71	4.23	5.78	7.01	5.77
Total assets	13,094	12,097	11,264	9,844	8,519
Long-term borrowings	2,242	1,955	1,100	773	745
Cash dividends declared per share of common stock	2.20	2.20	2.20	1.80	1.35

## Report of Certified Public Accountants

The Board of Directors and Stockholders

Phillips Petroleum Company

We have examined the accompanying consolidated balance sheet of Phillips Petroleum Company at December 31, 1983 and 1982, and the related consolidated statements of income and earnings employed in the business and changes in financial position for each of the three years in the period ended December 31, 1983. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the statements mentioned above present fairly the consolidated financial position of Phillips Petroleum Company at December 31, 1983 and 1982, and the consolidated results of operations and changes in financial position for each of the three years in the period ended December 31, 1983, in conformity with generally accepted accounting principles applied on a consistent basis during the period except for the change in 1982, with which we concur, in the method of accounting for foreign currency translation as described in Note 13.

*Arthur Young & Company*

Tulsa, Oklahoma  
February 13, 1984

# Consolidated Statement of Income and Earnings Employed in the Business

PHILLIPS PETROLEUM COMPANY

Years Ended December 31

Millions of Dollars

	1983	1982	1981
<b>Revenues</b>			
Sales and other operating revenues	\$15,249	15,698	15,966
Equity in earnings of affiliated companies	46	10	97
Other revenues	116	184	225
<b>Total Revenues</b>	<b>15,411</b>	<b>15,892</b>	<b>16,288</b>
<b>Costs and Expenses</b>			
Purchased crude oil and products	8,857	9,121	9,020
Production and operating expenses	1,891	2,101	2,104
Exploratory costs and leasehold impairment	671	667	535
Selling, general and administrative expenses	441	500	491
Depreciation, depletion, amortization and retirements	580	700	616
Taxes other than income taxes	447	477	649
Interest and expense on indebtedness	247	226	202
<b>Total Costs and Expenses</b>	<b>13,134</b>	<b>13,792</b>	<b>13,617</b>
Income before income taxes	2,277	2,100	2,671
Provision for income taxes	1,556	1,454	1,792
<b>Net Income</b>	<b>721</b>	<b>646</b>	<b>879</b>
<b>Earnings Employed in the Business at Beginning of Year</b>	<b>5,225</b>	<b>4,892</b>	<b>4,348</b>
Adjustment for change in accounting	—	23	—
Dividends declared and paid (\$2.20 per share)	(337)	(336)	(335)
<b>Earnings Employed in the Business at End of Year</b>	<b>\$ 5,609</b>	<b>5,225</b>	<b>4,892</b>
<b>Net Income Per Share of Common Stock</b>	<b>\$ 4.71</b>	<b>4.23</b>	<b>5.78</b>
<b>Average Shares Outstanding (in thousands)</b>	<b>153,191</b>	<b>152,711</b>	<b>152,181</b>

See accounting policies and notes to financial statements.



## Consolidated Balance Sheet

PHILLIPS PETROLEUM COMPANY

At December 31	Millions of Dollars	
	1983	1982
<b>Assets</b>		
Current Assets		
Cash, including time deposits (1983—\$749; 1982—\$664)	\$ 906	793
Accounts and notes receivable (less allowances: 1983—\$12; 1982—\$8)	1,219	1,227
Inventories	668	759
Prepaid expenses and other current assets	110	130
Total Current Assets	2,903	2,909
Investments and Long-Term Receivables	456	450
Properties, Plants and Equipment (less accumulated depreciation, depletion and amortization)	9,549	8,548
Deferred Charges	186	190
Total Assets	\$13,094	12,097
<b>Liabilities</b>		
Current Liabilities		
Accounts payable	\$ 1,287	1,254
Notes payable	111	152
Long-term borrowings due within one year	31	41
Accrued income and other taxes	1,258	1,086
Other accruals	194	179
Total Current Liabilities	2,881	2,712
Long-Term Debt	2,198	1,900
Other Long-Term Liabilities	358	495
Obligations under Capital Leases	44	55
Accrued Contingent Liabilities	147	224
Deferred Income Taxes	1,210	838
Other Deferred Credits	72	63
Minority Interest in Consolidated Subsidiaries	35	37
Total Liabilities	6,945	6,324
<b>Stockholders' Equity</b>		
Common Stock (\$1.25 par value)		
Shares authorized (200,000,000)		
Shares issued (154,449,429)	193	193
Capital in Excess of Par Value of Common Stock	490	492
Treasury Stock (at cost) (1983—1,226,265 shares; 1982—1,329,961 shares)	(62)	(68)
Foreign Currency Translation Adjustments	(81)	(69)
Earnings Employed in the Business	5,609	5,225
Total Stockholders' Equity	6,149	5,773
Total Liabilities and Stockholders' Equity	\$13,094	12,097

See accounting policies and notes to financial statements.

# Consolidated Statement of Changes in Financial Position

**PHILLIPS PETROLEUM COMPANY**
**Years Ended December 31**
**Millions of Dollars**
**Funds Provided from Operations Consisted of**

	1983	1982	1981
Net income	\$ 721	646	879
Non-cash items included in earnings:			
Depreciation, depletion, amortization and retirements	580	700	616
Dry hole costs and leasehold impairment	405	408	242
Other (primarily deferred taxes)	287	165	217
	1,993	1,919	1,954

**While Funds Were Expended for**

Capital expenditures (including dry hole costs)	1,141	2,132	2,664
Purchase of net noncurrent assets of General American Oil Company of Texas	1,229	—	—
Investments	23	18	98
Reduction of long-term borrowings	95	69	46
Dividends to company stockholders	337	336	335
Other	19	87	44
	2,844	2,642	3,187

<b>Which Left a Deficiency of</b>	<b>851</b>	<b>723</b>	<b>1,233</b>
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**Additional Funds Were Provided from**

Long-term borrowings	382	939	377
Property sales and retirements	73	101	44
Sale of investments	197	9	12
Sale of company stock	4	28	—
Other	20	32	22
	676	1,109	455

<b>Which Resulted in Increased (Decreased) Working Capital of</b>	<b>\$ (175)</b>	<b>386</b>	<b>(778)</b>
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**Working Capital Changes**

Increase (Decrease) in Current Assets			
Cash	\$ 113	(102)	(576)
Accounts and notes receivable	(8)	101	(296)
Inventories	(91)	(124)	187
Prepaid expenses and other current assets	(20)	(14)	39
(Increase) Decrease in Current Liabilities			
Accounts payable	(33)	121	(62)
Notes payable	41	363	(507)
Long-term borrowings due within one year	10	—	19
Taxes and other accruals	(187)	41	418
<b>Increase (Decrease) in Working Capital</b>	<b>\$ (175)</b>	<b>386</b>	<b>(778)</b>

*See accounting policies and notes to financial statements.*



## Accounting Policies

**Consolidation Principles and Investments**—The consolidated financial statements include the accounts of companies owned more than 50 percent except for an insurance company and a credit company. Investments in these two companies, in companies owned 20 to 50 percent, inclusively, and in corporate joint ventures are accounted for using the equity method of accounting (affiliated companies). Investments in other companies are carried at cost.

**Inventories**—Crude oil, petroleum products, chemicals and merchandise are priced at cost, which is lower than market in the aggregate, mainly on the last-in, first-out (LIFO) basis. Materials and supplies are priced at or below average cost.

**Oil and Gas Exploration and Development**—Oil and gas exploration and development costs are accounted for using the successful efforts method of accounting.

**Property Acquisition Costs**—Oil and gas leasehold acquisition costs are capitalized. Leasehold impairment is recognized based upon unsuccessful exploratory experience. Upon discovery of commercial reserves, leasehold costs are transferred to producing properties.

**Exploratory Costs**—Geological and geophysical expenses and the costs of carrying and retaining undeveloped properties are charged against income as incurred. Exploratory drilling costs are capitalized when incurred. If exploratory wells are determined to be commercially unsuccessful (dry holes), applicable costs are expensed.

**Development Costs**—Costs incurred to drill and equip development wells, including unsuccessful development wells, are capitalized.

**Depletion and Amortization**—Leasehold costs of producing properties are depleted on the unit-of-production method based on estimated proved recoverable oil and gas reserves. Amortization of intangible development costs is based on the unit-of-production method using the estimated proved developed recoverable oil and gas reserves.

**Depreciation and Amortization**—Depreciation and amortization of properties, plants and equipment, including assets under capital leases, are determined by the group straight-line method, individual unit straight-line method and the unit-of-production method, applying the method considered most appropriate for each type of property.

**Property Dispositions**—When complete units of depreciable property are retired or sold, accumulated depreciation is reduced by the applicable amounts and any profit or loss is credited or charged to income. When less than complete units of depreciable property are disposed of or retired, the difference between asset cost and salvage value is charged or credited to accumulated depreciation.

**Dismantlement Costs**—The estimated costs, net of salvage values, of dismantling facilities are accrued currently, using the unit-of-production method and the straight-line method, applying the method considered most appropriate for each type of property.

**Foreign Currency Translation**—FASB Statement No. 52, "Foreign Currency Translation," was adopted by the company in 1982. Under FASB Statement No. 52, each foreign entity's financial results are measured in the primary currency in which that entity conducts its business (referred to as its functional currency). Monetary assets and liabilities and transactions denominated in currencies other than the entity's functional currency are remeasured into the functional currency using current exchange rates. Gains or losses resulting from remeasurement are included in net income. Adjustments resulting from the process of translating foreign functional currency financial statements into U.S. dollars are taken directly to a separate component of stockholders' equity and do not affect net income.

Foreign currency transaction gains and losses, other than those relating to income tax accounts, are included as appropriate either in equity in earnings of affiliated companies, or in various costs and expenses. Income taxes applicable to such gains and losses and the gain or loss from remeasurement of income tax liabilities denominated in other than the functional currency are included in the provision for income taxes.

**Retirement Income Plans**—Current service costs and amortization of prior service costs for defined benefit plans covering U.S. employees are accrued and funded based on actuarial studies. The parent company plan's unfunded prior service costs are amortized over periods not exceeding 25 years. For plans of subsidiary companies the amortization periods range from 20 to 40 years. Plans for the majority of employees outside the United States are fully insured and are accounted for on a cash basis.

**Interest Costs**—Interest costs relating to significant long-term capital projects are capitalized.

**Income Taxes**—Deferred taxes are provided for all significant timing differences in the recognition of revenues and expenses for tax and financial purposes. The allowable investment, energy and research and experimental tax credits are applied currently as reductions of the provision for income taxes. No provision for U.S. income taxes is made on undistributed earnings of certain companies and corporate joint ventures because of reinvestment plans for such funds.

**Net Income Per Share**—Net income per share of common stock is calculated based upon the daily weighted average of the number of shares outstanding during the year.

## Notes to Financial Statements

### Note 1—Inventories

Inventories at December 31 consisted of the following:

	Millions of Dollars	
	1983	1982
Crude oil, petroleum products and chemicals	\$407	462
Merchandise	27	26
	434	488
Materials and supplies	234	271
	\$668	759

The stated value of inventories determined under the last-in, first-out method would have been approximately \$745 and \$904 million higher had they been valued using the first-in, first-out method at December 31, 1983 and 1982, respectively. The reduction of certain LIFO inventory quantities in 1983, 1982 and 1981 increased net income \$45, \$72 and \$14 million, respectively.

### Note 2—Investments and Long-Term Receivables

Components of investments and long-term receivables at December 31 were as follows:

	Millions of Dollars	
	1983	1982
Investments in and advances to affiliated companies:		
Phillips Petroleum Credit Corporation	\$122	118
Walton Insurance Limited	25	29
Companies owned 50 percent or less	209	192
Long-term receivables	86	100
Other investments	14	11
	\$456	450

Earnings employed in the business at December 31, 1983, include \$130 million relating to undistributed earnings of affiliated companies. Dividends received from affiliated companies were \$31, \$47 and \$31 million in 1983, 1982 and 1981, respectively.

Phillips Petroleum Credit Corporation (Credit) purchases certain accounts receivable from Phillips with funds obtained from short-term borrowings. Walton Insurance Limited (Walton) participated in the international reinsurance business, including insuring certain Phillips risks, until January 27, 1983, when Walton ceased writing new third-party reinsurance. Summarized information relating to results of operations and to assets and liabilities for Credit, Walton and companies owned 50 percent or less follows:

	Millions of Dollars		
	1983	1982	1981
<b>Credit</b>			
Revenues	\$ 35	56	60
Costs and expenses	28	45	48
Income before income taxes	7	11	12
Net income	4	6	7
Current assets	451	412	498
Current liabilities	329	294	391



	Millions of Dollars		
	1983	1982	1981
<b>Walton</b>			
Underwriting income			
International reinsurance	\$ 127	97	79
Phillips	24	27	21
Underwriting expense	173	204	122
Net underwriting loss	(22)	(80)	(22)
Investment income	19	19	21
Net loss	(3)	(61)	(1)
Cash, time deposits and marketable debt securities	122	101	109
Other assets	129	106	90
Provision for losses	140	160	78
Other liabilities	31	19	32

#### Companies Owned 50 Percent or Less

Revenues	\$3,234	3,988	4,324
Costs and expenses	2,843	3,661	4,007
Income before income taxes	391	327	317
Net income	236	245	235
Current assets	688	928	1,201
Other assets	2,680	3,038	3,657
Current liabilities	601	981	1,193
Other liabilities	2,363	2,476	3,022

#### Note 3—Properties, Plants and Equipment

The company's investments in properties, plants and equipment (at cost) at December 31 are summarized as follows:

	Millions of Dollars	
	1983	1982
Energy Resources	\$ 9,440	7,925
Petroleum Products	2,678	2,607
Chemicals	1,432	1,487
Other	752	683
	14,302	12,702
Accumulated depreciation, depletion and amortization	4,753	4,154
	\$ 9,549	8,548
Assets under capital leases included above	\$ 134	159
Accumulated amortization	90	105
	\$ 44	54

**Note 4—Debt****Short-Term**

Short-term borrowings at December 31 consisted of the following:

	Millions of Dollars	
	1983	1982
Notes payable	\$ 111	122
Commercial paper	—	30
	<b>\$ 111</b>	<b>152</b>
Weighted average annual interest rate	<b>10%</b>	<b>9</b>

**Long-Term**

Long-term borrowings due after one year at December 31 consisted of the following:

	Millions of Dollars	
	1983	1982
14% Guaranteed Notes Due 1989	\$ 200	200
12 $\frac{7}{8}$ % Notes Due September 1, 1992	200	200
12 $\frac{1}{4}$ % Debentures Due 2012	300	300
11 $\frac{1}{4}$ % Debentures Due 2013	250	—
8 $\frac{7}{8}$ % Debentures Due 2000	227	227
7 $\frac{7}{8}$ % Debentures Due 2001	156	156
5 $\frac{5}{8}$ % Marine Terminal Revenue Bonds, Series 1977 Due 2007	20	20
Notes payable to banks, insurance companies and others		
At 13 $\frac{1}{2}$ %–15 $\frac{1}{2}$ % due through 1993	200	220
At 10 $\frac{1}{16}$ %–13% due through 1993	254	11
At 10%–10 $\frac{1}{2}$ % due through 1993	248	237
At 5 $\frac{3}{8}$ %–9 $\frac{1}{16}$ % due through 1993	132	310
Purchase obligations	11	19
Long-term debt	<b>2,198</b>	<b>1,900</b>
Obligations under capital leases	<b>44</b>	<b>55</b>
	<b>\$2,242</b>	<b>1,955</b>

Maturities of long-term debt in the years 1984 through 1988 are: \$20, \$38, \$155, \$113 and \$143 million, respectively.

Arrangements existed at year-end 1983 for the company to borrow an additional \$131 million for financing U.K. exploration and development activities; the outstanding balance at year-end was \$540 million. Repayment, which commenced in 1983, will continue through 1993. Interest rates change periodically over the life of the borrowings and are based on the rate offered by prime banks in the London Interbank Market increased by an applicable margin.

**Lines of Credit**

The company and Phillips Petroleum Credit Corporation (Credit) have arranged with a group of international banks a \$1 billion multicurrency revolving credit agreement, which extends through mid-1989, and two revolving credit agreements with other banks for \$250 and \$300 million each, which extend through mid-1990. These revolving credit agreements require commitment fees of less than  $\frac{1}{2}$  of 1 percent per annum on the unused portion of the lines of credit. The company and Credit also have committed lines of credit of \$235 million that will be available through mid-1984. At December 31, 1983, approximately 19 percent of the total amount of these credit facilities was being used as support for issuance of commercial paper by the company and Credit or for other short-term borrowing arrangements.

**Compensating Balances**

The company maintains compensating balances for the \$235 million of committed lines of credit. The company also maintains compensating balances for banking services under various arrangements with several banks. The compensating balances for banking services are not legally restricted as to withdrawal and are continually reviewed and adjusted based on levels of services and activity. The total of all compensating balances is not material in relation to total liquid assets.



**Note 5—Other Long-Term Liabilities**

Other long-term liabilities consist mainly of accrued liabilities for dismantling offshore exploration and production facilities.

**Note 6—Non-Mineral Leases**

The company leases bulk and service stations, tankers, computers and other facilities and equipment under both capital and operating leases.

At December 31, 1983, future minimum rental payments due under noncancelable leases were as follows:

	Millions of Dollars	
	Capital Leases	Operating Leases
1984	\$16	39
1985	16	30
1986	11	22
1987	9	16
1988	8	8
Remaining years	16	47
Total payments*	76	162
Less imputed interest	21	
Present value	55	
Amount included in current liabilities	11	
Obligations under capital leases	\$44	

\*Minimum payments have not been reduced by aggregate minimum sublease rentals due under noncancelable subleases of \$7 million for capital leases and \$3 million for operating leases.

Operating lease rental expense for the years ended December 31 was as follows:

	Millions of Dollars		
	1983	1982	1981
Total rentals	\$81	92	76
Less sublease rentals	8	8	9
Net rentals	\$73	84	67

**Note 7—Litigation and Contingent Liabilities**

A number of legal proceedings are pending in various courts or agencies in which the company or a subsidiary appears as plaintiff or defendant, including civil class action suits filed by the states of Florida, California, Arizona, Oregon and Washington (all consolidated for pretrial procedures in the U.S. District Court at Los Angeles, Calif.) against numerous petroleum companies, alleging extensive violations of the antitrust laws relating to the production and refining of crude oil, and the transportation and marketing of crude oil and refined products.

At December 31, 1983 and 1982, the company was contingently liable for \$34 and \$38 million, respectively, for obligations of affiliated companies and others. In addition, the company had contingent liabilities at both dates resulting from throughput agreements with pipeline and processing companies in which it holds stock interests. Under these agreements, Phillips may be required to provide any such company with additional funds through advances against future charges for the shipping or processing of petroleum liquids, natural gas and refined products.

While it is not possible at this time to establish the ultimate amount of liability with respect to contingent liabilities, including those related to legal proceedings, the company is of the opinion that the aggregate amount of any such liabilities for which provision has not been made will not have a material adverse effect on its financial position.

## Note 8—Taxes

	Millions of Dollars		
	1983	1982	1981
<b>Taxes Other Than Income Taxes</b>			
Property	\$ 65	47	49
Crude oil excise	186	226	409
Production	119	114	114
Payroll	50	52	46
Other	27	38	31
	447	477	649
<b>Income Taxes</b>			
Federal			
Current	108	24	194
Deferred	179	218	176
Foreign			
Current	1,094	1,213	1,330
Deferred	161	(38)	54
State and local (current)	14	37	38
	1,556	1,454	1,792
Total taxes charged to income	2,003	1,931	2,441
Excise taxes collected on the sale of petroleum products and paid to taxing agencies	144	125	128
	\$2,147	2,056	2,569

Deferred income taxes relating to timing differences were:

Excess of tax depreciation over financial	\$ 227	176	149
Excess of intangible drilling and certain other costs over financial provisions	24	38	122
Financial provision for dismantlement	121	(70)	(78)
Capitalized interest, net of amortization	19	51	27
Excess of financial provision for leasehold impairment over related tax deduction	(40)	7	(7)
Other	(11)	(22)	17
	\$ 340	180	230

The amounts of U.S. and outside U.S. income before income taxes and a reconciliation of tax at the federal statutory rate with the provision for income taxes follow:

	Millions of Dollars			Percent of Pretax Income		
	1983	1982	1981	1983	1982	1981
Income before income taxes:						
United States	\$ 841	769	1,012	36.9%	36.6	37.9
Outside United States	1,436	1,331	1,659	63.1	63.4	62.1
	\$2,277	2,100	2,671	100.0%	100.0	100.0
Federal statutory income tax	\$1,047	966	1,229	46.0%	46.0	46.0
Foreign taxes in excess of federal statutory rate	580	566	669	25.4	26.9	25.0
Investment, energy and research tax credits	(35)	(113)	(87)	(1.5)	(5.4)	(3.2)
Other	(36)	35	(19)	(1.6)	1.7	(.7)
	\$1,556	1,454	1,792	68.3%	69.2	67.1



Deferred taxes have not been provided for the company's equity in undistributed earnings of certain companies and corporate joint ventures because of reinvestment plans for such funds. At December 31, 1983, 1982 and 1981, the aggregate of these funds was \$274, \$245 and \$213 million, respectively, excluding amounts which if remitted would be expected to result in little or no tax because of available tax credits and other deductions.

The Internal Revenue Service has examined the company's U.S. income tax returns through 1974, and all deficiencies have been settled. The company is of the opinion that any adjustments made to the company's returns for subsequent years will not have a material effect on the financial position of the company.

### Note 9—Stockholders' Equity

Changes in common stock, capital in excess of par value of common stock and foreign currency translation adjustments follow:

	Common Stock			Millions of Dollars	
	Shares Issued	Shares Held in Treasury	Shares Outstanding	Capital in Excess of Par Value of Common Stock	Foreign Currency Translation Adjustments
December 31, 1980	154,449,429	2,269,197	152,180,232	\$511	
Issued under Incentive Compensation Plans		(980)	980		
December 31, 1981	154,449,429	2,268,217	152,181,212	511	
Cumulative foreign currency translation adjustments					(33)
Current period translation adjustments					(36)
Treasury shares exchanged for debt		(937,145)	937,145	(19)	
Issued under Incentive Compensation Plans		(1,111)	1,111		
December 31, 1982	154,449,429	1,329,961	153,119,468	492	(69)
Current period translation adjustments					(30)
Translation adjustment recognized in anticipation of disposal of foreign investments					18
Issued under Incentive Compensation Plans		(103,696)	103,696	(2)	
December 31, 1983	154,449,429	1,226,265	153,223,164	\$490	(81)

### Note 10—Retirement Income Plans

The parent company and its subsidiaries have defined benefit retirement plans covering substantially all employees. Total pension costs were \$33, \$65 and \$77 million in 1983, 1982 and 1981, respectively. The primary factors in the \$32 million reduction of pension costs for 1983 were changes in the valuation method for parent company plan assets and in the work force. Changes in actuarial assumptions in 1982 (increases in the salary progression rate and the investment return rate) decreased pension costs by \$25 million, partly offset by a \$15 million increase resulting primarily from higher compensation.

Accumulated benefits and net assets of plans for U.S. employees at January 1 are presented below:

	Millions of Dollars			
	Parent Company		Subsidiary Companies	
	1983	1982	1983	1982
Actuarial present value of accumulated plan benefits				
Vested	\$ 679	673	12	37
Nonvested	130	102	1	1
	\$ 809	775	13	38
Net assets available for benefits	\$1,258	1,044	30	48

The above actuarial present values of accumulated plan benefits were determined assuming an 8 percent rate of return for the parent company plan and 7½ percent for plans of subsidiary companies. In determining these values, neither future years of service nor future salary increases were included; however, for purposes of funding and pension cost accrual, both factors were considered.

#### Note 11—Incentive Compensation Plans

The Incentive Compensation Plan provides for awards to key employees in recognition of outstanding contributions to the company's success. Awards, as approved by the Board of Directors, may be in the form of cash or shares of the company's common stock and may not exceed a specified percent by which net income exceeds an expressed percent of borrowed and invested capital, as defined by the plan. In anticipation of awards that may become payable under the plan, provisions of \$10, \$5 and \$9 million were made against earnings in 1983, 1982 and 1981, respectively. The provisions were substantially less than the maximum permitted under the plan.

The Long-Term Incentive Compensation Plan provides for the granting of contingent awards to certain key employees as incentives to improve the company's long-term profitability and growth. The amount of awards to be paid is determined, at the close of each performance period (three or more years), on the basis of performance measurement criteria established by the Board of Directors at the beginning of the performance period. The amount charged against earnings and credited to a reserve in anticipation of awards that may become payable under the plan was \$1 million in 1983. Application of the same performance criteria returned \$1 and \$2 million to income in 1982 and 1981, respectively.

#### Note 12—Interest, Maintenance and Repairs, and Research and Development

	Millions of Dollars		
	1983	1982	1981
Interest			
Incurred	\$311	336	262
Capitalized	64	110	60
Expensed	\$247	226	202
Maintenance and repairs—expensed	\$372	417	440
Research and development expenditures—expensed	\$116	138	118

#### Note 13—Foreign Currency Gains and Losses

Effective January 1, 1982, the company adopted FASB Statement No. 52. Transaction gains and losses, net of income tax effects, computed in accordance with FASB Statement No. 52 increased earnings \$30 million in 1983 and \$61 million in 1982, of which \$40 million (\$.26 per share) in 1982 is attributable to the change to FASB Statement No. 52. Foreign currency gains and losses computed following FASB Statement No. 8 increased earnings \$42 million in 1981.

#### Note 14—Acquisition of General American Oil Company of Texas

On March 8, 1983, Phillips Oil Company, a wholly owned Phillips subsidiary, completed its acquisition of General American Oil Company of Texas (GAO), a Dallas-based oil and gas exploration and production company. The purchase price of GAO stock acquired was \$1.14 billion. The acquisition was accounted for using the purchase method. The results of operations of GAO have been consolidated with those of the company since February 1, 1983. Pro forma consolidated results of operations, as if the acquisition of GAO had taken place on January 1, 1982, are not presented as they would not differ materially from actual results.



**Note 15—Segment and Geographic Information**

The company is involved primarily in Petroleum and Chemicals operations. Petroleum operations are fully integrated and involve the discovery, production, transportation and refining of crude oil and natural gas together with the subsequent transportation and marketing of products derived therefrom. This segment also provides feedstock for the production of petrochemicals. Chemicals operations involve the manufacture and marketing of a broad range of petroleum-based chemical products, including synthetic rubber, carbon black, plastics, fertilizers and synthetic fibers. The Other segment includes Minerals and miscellaneous activities.

Segment and geographic information for 1983, 1982 and 1981 is presented on pages 53 and 54. A reconciliation to the financial statements follows:

	Millions of Dollars					
	Net Income			Total Assets		
	1983	1982	1981	1983	1982	1981
Operating profit	\$2,571	2,291	2,762			
Identifiable assets				11,263	10,480	9,589
Equity in earnings and assets of affiliated companies	46	10	97	356	338	425
Other revenues/adjustments	81	187	177			
General corporate expenses, interest and income taxes	(1,977)	(1,842)	(2,157)			
Corporate assets				1,475	1,279	1,250
	\$ 721	646	879	13,094	12,097	11,264
Return on average total assets	5.5%	5.3	8.2			

Sales and other operating revenues by business segment and by geographic area include both sales to customers outside the consolidated companies and sales within the consolidated companies that approximate market value.

In computing operating profit, none of the following items has been added or deducted: equity in earnings of affiliated companies, general corporate revenues and expenses, interest, and income taxes. The company's share of assets and earnings of affiliated companies, which are vertically integrated with operations of the company, is not material.

Identifiable assets by business segment and geographic area are those assets that are used in the company's operations in each segment or area. Corporate assets are principally cash.

Intersegment and intergeographic sales and profits in inventory are eliminated in determining consolidated revenue and identifiable asset totals.

## Analysis of Results by Business Segment

Years Ended December 31

Millions of Dollars

	1983	1982	1981
<b>Sales and Other Operating Revenues to Outside Customers</b>			
Petroleum operations—United States	\$10,691	10,888	10,568
Petroleum operations—outside United States	2,262	2,402	2,878
Chemicals	2,255	2,356	2,470
Other	41	52	50
	15,249	15,698	15,966
<b>Sales within Phillips between Segments</b>			
Petroleum operations—United States	648	571	726
Petroleum operations—outside United States	365	430	478
Chemicals	229	254	257
Other	35	38	36
	1,277	1,293	1,497
Eliminations (intersegment)	(1,277)	(1,293)	(1,497)
Total	\$15,249	15,698	15,966
<b>Operating Profit</b>			
Petroleum operations—United States	\$ 1,255	1,147	1,330
Petroleum operations—outside United States	1,316	1,198	1,397
Chemicals	83	23	140
Other	(81)	(99)	(104)
Eliminations (intersegment)	(2)	22	(1)
	\$ 2,571	2,291	2,762
<b>Net Income</b>	\$ 721	646	879
<b>Assets Identifiable by Business Segment</b>			
Petroleum operations—United States	\$ 6,659	5,772	5,299
Petroleum operations—outside United States	2,514	2,451	2,210
Chemicals	1,413	1,563	1,544
Other	689	705	570
Eliminations (intersegment)	(12)	(11)	(34)
	\$11,263	10,480	9,589
<b>Depreciation, Depletion, Amortization and Retirements (see note on page 54)</b>			
Petroleum operations—United States	\$ 659	565	360
Petroleum operations—outside United States	186	401	401
Chemicals	80	102	62
Other	33	38	31
Corporate	27	2	4
<b>Capital Expenditures—Properties, Plants and Equipment</b>			
Petroleum operations—United States	\$ 692	1,228	1,729
Petroleum operations—outside United States	265	481	521
Chemicals	64	148	166
Other	35	149	137
Corporate	85	126	111



## Analysis of Results by Geographic Area

Years Ended December 31	Millions of Dollars		
	1983	1982	1981
<b>Sales and Other Operating Revenues to Outside Customers</b>			
United States	\$12,392	12,656	12,564
Europe-Africa	2,616	2,825	3,044
Other areas	241	217	358
	15,249	15,698	15,966
<b>Sales within Phillips between Geographic Areas</b>			
United States	126	136	126
Europe-Africa	366	442	480
Other areas	29	24	21
	521	602	627
Eliminations (intergeographic)	(521)	(602)	(627)
Total	\$15,249	15,698	15,966
<b>Operating Profit</b>			
United States	\$ 1,250	1,071	1,353
Europe-Africa	1,381	1,304	1,471
Other areas	(58)	(105)	(60)
Eliminations (intergeographic)	(2)	21	(2)
	\$ 2,571	2,291	2,762
<b>Net Income</b>			
	\$ 721	646	879
<b>Assets Identifiable by Geographic Area</b>			
United States	\$ 8,465	7,734	7,161
Europe-Africa	2,411	2,509	2,256
Other areas	399	247	203
Eliminations (intergeographic)	(12)	(10)	(31)
	\$11,263	10,480	9,589
<b>Export Sales</b>			
	\$ 465	444	481

Depreciation, depletion, amortization and retirements on page 53 includes for 1983, 1982 and 1981, respectively, \$405, \$408 and \$242 million of dry hole costs and leasehold impairment, which are included in exploratory costs and leasehold impairment in the Consolidated Statement of Income and Earnings Employed in the Business on page 41.

## Oil and Gas Operations

### Oil and Gas Statistics—Unaudited

	1983	1982	1981
<b>Net Crude Oil and Natural Gas Liquids Production</b>	Thousands of Barrels Daily		
<b>Crude Oil</b>			
United States	127	112	116
Europe-Africa	113	112	125
Other areas	7	1	5
<b>Total Crude Oil Production</b>	<b>247</b>	<b>225</b>	<b>246</b>
<b>Natural Gas Liquids</b>			
United States leaseholds	27	28	31
United States plants	134	120	121
	161	148	152
Europe-Africa leaseholds	14	12	11
<b>Total Natural Gas Liquids Production</b>	<b>175</b>	<b>160</b>	<b>163</b>
<b>Total Crude Oil and Natural Gas Liquids Production</b>	<b>422</b>	<b>385</b>	<b>409</b>

<b>Net Natural Gas Production</b>	Millions of Cubic Feet Daily		
United States	799	789	899
Europe-Africa	443	471	488
Other areas	24	—	1
<b>Total Natural Gas Production</b>	<b>1,266</b>	<b>1,260</b>	<b>1,388</b>

<b>Average Sales Prices</b>	1983	1982	1981
<b>Crude Oil—Per Barrel</b>			
United States	\$26.64	29.06	31.85
Europe-Africa	30.17	34.35	37.97
Other areas	28.74	34.22	35.70
<b>Natural Gas Liquids—Per Barrel</b>			
United States	17.15	15.94	17.05
Europe-Africa	16.55	17.75	17.04
<b>Natural Gas—Per Thousand Cubic Feet</b>			
United States leases*	2.36	2.03	1.67
United States leases and natural gas liquids plants*	2.39	2.09	1.68
Europe-Africa	3.90	4.25	3.64
Other areas	1.39	2.19	2.33

\*Excludes sales of liquefied natural gas from Kenai, Alaska.

<b>Average Production (Lifting) Costs*—Per Equivalent Barrel of Oil</b>			
United States	\$ 6.97	7.08	8.12
Europe-Africa	5.25	5.77	5.62
Other areas	9.82	27.89	10.26

\*"Production (lifting) costs" consists of costs incurred to operate and maintain wells and related equipment and facilities used in the production of petroleum liquids and natural gas. Also included is the U.S. crude oil excise tax of \$186, \$226 and \$409 million in 1983, 1982 and 1981, respectively. It does not include depreciation, depletion and amortization of capitalized acquisition, exploration and development costs.



## Oil and Gas Statistics—Unaudited

December 31, 1983

Acreage	Thousands of Acres	
	Gross	Net
<b>Developed Acreage</b>		
United States	2,662	1,808
Europe-Africa	214	59
Other areas	338	165
Total Developed Acreage	3,214	2,032
<b>Undeveloped Acreage</b>		
United States	8,627	6,270
Europe ( <i>Netherlands, Norwegian and U.K. sectors of North Sea, Italy and Spain</i> )	5,446	1,944
Africa ( <i>Ivory Coast, Egypt and Nigeria</i> )	4,158	1,920
Asia ( <i>Indonesia and Thailand</i> )	17,618	7,235
Canada ( <i>Northwest Territories, British Columbia, Alberta and Saskatchewan</i> )	6,160	2,258
Latin America ( <i>Peru</i> )	4,928	1,478
Australia	2,003	668
Total Undeveloped Acreage	48,940	21,773

### Wells Completed\*

	Gross			Net Productive			Net Dry		
	1983	1982	1981	1983	1982	1981	1983	1982	1981
<b>Exploratory Wells</b>									
United States	91	80	65	17	10	19	34	33	24
Europe-Africa	12	27	22	—	3	3	3	8	6
Other areas	11	31	52	—	3	11	4	6	12
Total Exploratory	114	138	139	17	16	33	41	47	42
<b>Development Wells</b>									
United States	828	1,023	894	167	221	227	36	37	16
Europe-Africa	14	16	25	4	5	7	—	—	1
Other areas	7	—	1	2	—	1	1	—	—
Total Development	849	1,039	920	173	226	235	37	37	17

\*Excludes farmout arrangements.

### Wells at Year-End 1983

	In Progress*		Productive**			
	Gross	Net	Oil		Gas	
			Gross	Net	Gross	Net
United States	263	60	34,976	8,210	4,976	2,573
Europe-Africa	12	3	238	65	91	25
Other areas	13	9	901	290	330	93
Total Wells	288	72	36,115	8,565	5,397	2,691

\*Includes wells which have been temporarily suspended.

\*\*Includes 1,039 gross and 421 net multiple completion wells.

## Capitalized Costs Relating to Oil and Gas Producing Activities—Audited

Years Ended December 31

Millions of Dollars

	1983	1982
Proved properties	\$6,229	4,934
Unproved properties	1,284	1,168
Total	7,513	6,102
Accumulated depreciation, depletion and amortization	(2,526)	(2,058)
Net	\$4,987	4,044

- “Capitalized Costs Relating to Oil and Gas Producing Activities” includes the cost of equipment and facilities that support only oil and gas producing activities. Not included are investments in natural gas liquids extraction plants and related systems as well as downstream manufacturing, distribution and marketing facilities required to convert raw petroleum liquids and natural gas into consumable products.
- “Proved properties” includes capitalized costs for oil and gas leaseholds holding proved petroleum liquids and natural gas reserves, wells and related equipment and facilities (including uncompleted well costs) and support equipment.
- “Unproved properties” includes capitalized costs for oil and gas leaseholds which are under exploration, including those where petroleum liquids and natural gas were found but not in sufficient quantities to be considered proved reserves.

## Costs Incurred in Oil and Gas Property Acquisition, Exploration and Development Activities—Audited

Millions of Dollars

	Property Acquisition	Exploration	Development	Total
<b>1983</b>				
United States	\$ 934	292	219	1,445
Europe-Africa	10	138	146	294
Other areas	156	68	5	229
Total	\$1,100	498	370	1,968
<b>1982</b>				
United States	\$ 95	288	307	690
Europe-Africa	—	205	282	487
Other areas	2	99	—	101
Total	\$ 97	592	589	1,278
<b>1981</b>				
United States	\$ 653	280	256	1,189
Europe-Africa	1	220	255	476
Other areas	5	121	18	144
Total	\$ 659	621	529	1,809

- “Costs incurred” includes both capitalized and expensed items.
- “Property acquisition” includes the cost of acquiring undeveloped oil and gas leaseholds. In 1983 it also includes proved properties of approximately \$751 million in the United States and approximately \$144 million in Other areas resulting from the acquisition of General American Oil Company.
- “Exploration” includes geological and geophysical expenses, the cost of carrying and retaining undeveloped leaseholds, and exploratory drilling costs.
- “Development” includes the cost of drilling and equipping development wells and building related production facilities for extracting, treating, gathering and storing petroleum liquids and natural gas.



## Proved Reserves Worldwide—Unaudited

Years Ended December 31	Crude Oil				Natural Gas Liquids			
	Millions of Barrels				Millions of Barrels			
	United States	Europe-Africa	Other Areas	Total	United States	Europe-Africa	Other Areas	Total
<b>Developed and Undeveloped</b>								
<b>1980</b>	370	462	2	834	128	54	—	182
Revisions of previous estimates	23	(59)	—	(36)	1	—	—	1
Extensions and discoveries	7	30	1	38	—	—	—	—
Production	(41)	(45)	(1)	(87)	(12)	(4)	—	(16)
<b>1981</b>	359	388	2	749	117	50	—	167
Revisions of previous estimates	18	13	—	31	16	9	—	25
Purchases of reserves in place	—	1	—	1	—	—	—	—
Extensions and discoveries	31	3	1	35	1	—	—	1
Production	(39)	(40)	—	(79)	(11)	(4)	—	(15)
<b>1982</b>	369	365	3	737	123	55	—	178
Revisions of previous estimates	10	29	—	39	25	—	—	25
Improved recovery	10	58	—	68	—	—	—	—
Purchases of reserves in place	54	—	28	82	9	—	1	10
Extensions and discoveries	9	5	—	14	1	—	—	1
Production	(46)	(41)	(3)	(90)	(11)	(5)	—	(16)
<b>1983</b>	<b>406</b>	<b>416</b>	<b>28</b>	<b>850</b>	<b>147</b>	<b>50</b>	<b>1</b>	<b>198</b>
<b>Developed</b>								
<b>1980</b>	309	349	2	660	127	50	—	177
<b>1981</b>	312	308	1	621	116	48	—	164
<b>1982</b>	301	341	2	644	120	54	—	174
<b>1983</b>	<b>322</b>	<b>339</b>	<b>28</b>	<b>689</b>	<b>143</b>	<b>50</b>	<b>1</b>	<b>194</b>

- “Proved reserves” are those quantities of crude oil, natural gas liquids and natural gas which, upon analysis of geological and engineering data, appear with reasonable certainty to be recoverable in the future from known oil and gas reservoirs under existing economic and operating conditions. As additional information becomes available or conditions change, proved reserve estimates must be revised.
- “Developed reserves” are those portions of proved crude oil, natural gas liquids and natural gas reserves that are recoverable through existing well bores and production equipment and facilities.
- “Proved crude oil” includes quantities attributable to fluid injection pressure maintenance programs planned for the Prudhoe Bay field in Alaska (estimated 28 million barrels) and being implemented in the Maureen field in the U.K. sector of the North Sea. In 1983 additional quantities were added for an improved recovery project in the Ekofisk field in the Norwegian North Sea (estimated 58 million barrels).

Years Ended December 31	Natural Gas			
	Billions of Cubic Feet			
	United States	Europe-Africa	Other Areas	Total
<b>Developed and Undeveloped</b>				
<b>1980</b>	3,363	3,360	55	6,778
Revisions of previous estimates	231	(138)	(7)	86
Purchases of reserves in place	4	—	—	4
Extensions and discoveries	147	255	—	402
Production	(320)	(182)	(2)	(504)
<b>1981</b>	3,425	3,295	46	6,766
Revisions of previous estimates	137	21	(2)	156
Purchases of reserves in place	1	8	—	9
Extensions and discoveries	143	56	—	199
Production	(274)	(178)	(1)	(453)
<b>1982</b>	3,432	3,202	43	6,677
Revisions of previous estimates	44	(40)	—	4
Purchases of reserves in place	283	—	285	568
Extensions and discoveries	81	—	—	81
Production	(289)	(169)	(10)	(468)
Sales of reserves in place	(3)	—	—	(3)
<b>1983</b>	<b>3,548</b>	<b>2,993</b>	<b>318</b>	<b>6,859</b>
<b>Developed</b>				
<b>1980</b>	3,206	3,236	55	6,497
<b>1981</b>	3,246	3,051	46	6,343
<b>1982</b>	3,236	2,930	43	6,209
<b>1983</b>	<b>3,348</b>	<b>2,768</b>	<b>303</b>	<b>6,419</b>

• “Proved natural gas” includes estimated reserves for which there presently is no market, as follows: 132 billion cubic feet from Prudhoe Bay field in Alaska in 1980, 1981, 1982 and 1983; 46 billion cubic feet from Ghost River field in Canada in 1980 and 34 in 1981, 1982 and 1983; 905 billion cubic feet from fields in Nigeria in 1980, 1,066 in 1981 and 1,062 in 1982 and 1983.

• Prudhoe Bay reserves of 132 billion cubic feet, Ghost River reserves of 34 billion cubic feet and Nigerian reserves of 1,062 billion cubic feet are included at no value in “Standardized Measure of Discounted Future Net Cash Flows Relating to Proved Oil and Gas Reserve Quantities” shown on page 61.

• “Natural gas reserves” are computed at 14.65 pounds per square inch absolute and 60° Fahrenheit.



## Results of Operations for Oil and Gas Producing Activities—Audited

	Millions of Dollars			Total
	United States	Europe-Africa	Other Areas	
<b>1983</b>				
Sales	\$1,018	921	80	2,019
Transfers	791	1,054	—	1,845
Total revenues	1,809	1,975	80	3,864
Production (lifting) costs	657	388	38	1,083
Exploration expenses	154	71	40	265
Depreciation, depletion, amortization and retirements	487	97	69	653
	511	1,419	(67)	1,863
Provision for income taxes	229	1,226	3	1,458
Results of Operations for Producing Activities	\$ 282	193	(70)	405
<b>1982</b>				
Sales	\$ 968	879	12	1,859
Transfers	767	1,317	—	2,084
Total revenues	1,735	2,196	12	3,943
Production (lifting) costs	624	431	12	1,067
Exploration expenses	127	60	54	241
Depreciation, depletion, amortization and retirements	345	328	54	727
	639	1,377	(108)	1,908
Provision for income taxes	301	1,252	(6)	1,547
Results of Operations for Producing Activities	\$ 338	125	(102)	361
<b>1981</b>				
Sales	\$1,034	1,016	64	2,114
Transfers	831	1,369	—	2,200
Total revenues	1,865	2,385	64	4,314
Production (lifting) costs	782	450	19	1,251
Exploration expenses	136	59	58	253
Depreciation, depletion, amortization and retirements	237	326	69	632
	710	1,550	(82)	2,178
Provision for income taxes	334	1,384	—	1,718
Results of Operations for Producing Activities	\$ 376	166	(82)	460

- “Sales” excludes revenues received from operation of natural gas liquids extraction plants and related gas systems. Transfers are valued at prices which approximate market prices.
- “Production (lifting) costs” consists of costs incurred to operate and maintain wells and related equipment and facilities used in the production of crude oil, natural gas liquids and natural gas. Also included is the U.S. crude oil excise tax of \$186, \$226 and \$409 million in 1983, 1982 and 1981, respectively. It does not include depreciation, depletion and amortization of capitalized acquisition, exploration and development costs.
- “Exploration expenses” primarily includes geological and geophysical expenses and the cost of carrying and retaining undeveloped leaseholds.
- “Provision for income taxes” is computed using each country’s statutory tax rate adjusted for permanent differences relating to the oil and gas producing activities that are reflected in the company’s consolidated income tax expense for the period.
- “Results of operations for producing activities” should not be equated to net income since no deduction has been made for such costs and expenses as distribution, selling, administrative and interest.

## Standardized Measure of Discounted Future Net Cash Flows Relating to Proved Oil and Gas Reserve Quantities—Unaudited

	Millions of Dollars			
	United States	Europe-Africa	Other Areas	Total
<b>1983</b>				
Future cash inflows	\$16,504	19,561	1,184	37,249
Future production costs	(5,561)	(3,776)	(514)	(9,851)
Future development costs	(497)	(1,090)	(4)	(1,591)
Future income tax provisions	(4,586)	(11,511)	(271)	(16,368)
Future net cash flows	5,860	3,184	395	9,439
10% annual discount	(2,947)	(1,159)	(172)	(4,278)
Discounted future net cash flows	\$ 2,913	2,025	223	5,161

<b>1982</b>				
Future cash inflows	\$16,350	21,358	108	37,816
Future production costs	(5,212)	(4,643)	(90)	(9,945)
Future development costs	(497)	(1,358)	(8)	(1,863)
Future income tax provisions	(4,733)	(11,750)	—	(16,483)
Future net cash flows	5,908	3,607	10	9,525
10% annual discount	(2,864)	(1,160)	(1)	(4,025)
Discounted future net cash flows	\$ 3,044	2,447	9	5,500

<b>1981</b>				
Future cash inflows	\$15,768	23,290	95	39,153
Future production costs	(5,774)	(4,315)	(58)	(10,147)
Future development costs	(312)	(1,447)	(4)	(1,763)
Future income tax provisions	(4,229)	(13,444)	—	(17,673)
Future net cash flows	5,453	4,084	33	9,570
10% annual discount	(2,594)	(1,291)	5	(3,880)
Discounted future net cash flows	\$ 2,859	2,793	38	5,690

• “Future net cash flows” is computed using year-end prices and costs, and year-end statutory tax rates (adjusted for permanent differences), that relate to existing proved oil and gas reserves in which the company has mineral interests.

The following are the sources of change in the standardized measure of discounted future net cash flows during 1983, 1982 and 1981.

	Millions of Dollars		
	1983	1982	1981
Sales and transfers of oil and gas produced, net of production costs	\$(2,781)	(2,876)	(3,063)
Net changes in prices and production costs	(1,457)	(317)	42
Extensions, discoveries, additions and improved recovery, less related costs	496	483	849
Development costs incurred during the period	370	589	529
Purchase of reserves in place	961	—	—
Revisions of previous quantity estimates and other	(81)	(85)	(1,542)
Accretion of discount	1,513	1,488	1,643
Net change in income taxes	640	528	1,383



## Supplementary Information on Changing Prices and the Effects of General Inflation—Unaudited

In compliance with FASB Statement No. 33, "Financial Reporting and Changing Prices," the following supplementary data are provided to demonstrate the effects of inflation on Phillips.

The primary financial statements, prepared on a historical cost basis according to generally accepted accounting principles, report transactions in terms of actual dollars received or expended at the time regardless of the relative purchasing power of the dollar. In the accompanying schedules, historical dollar financial data are compared with data comprehensively adjusted under two methods—constant dollar, which gives effect to general inflation, and current cost, which gives effect to changes in prices of specific goods and services used by the company.

Under the constant dollar method, the Consumer Price Index—All Urban Consumers (CPI-U), published by the U.S. Department of Labor, is used to restate historical costs in 1983 end-of-year dollars. The restated amounts do not represent any measure of current values of the underlying assets and may not be representative of inflation in the petroleum industry. Under the current cost method, current costs and prices, industry-related

published indices and internally generated indices are used, as appropriate, to translate historical costs into 1983 end-of-year dollars. Although current cost estimates are highly subjective and imprecise, they can be viewed as indicators of the impact of changing prices on the company and its operations.

Constant dollar net income and current cost net income are lower than historical cost net income. There are two principal reasons: (1) the historical dollar capital recovery charge (depreciation, depletion, amortization and retirements) is far less than either the constant dollar or current dollar cost of capital asset maintenance, and (2) the provision for income taxes does not decline with reductions in real income before income taxes. The provision for income taxes included for both constant dollar and current cost is unchanged from the amount reported in the primary statement of income, as required by FASB Statement No. 33, except for restatement to end-of-year dollars. Effective tax rates for 1983 under both methods, 86 and 101 percent, respectively, are significantly higher than statutory rates since income taxes are based on reported income rather than on inflation-adjusted results.

## Comparative Summary Financial Data—Unaudited

	Millions of Dollars					
	1983 (1)			1982 (1)		
	Historical	Constant Dollars	Current Cost	Historical	Constant Dollars	Current Cost
<b>Summary Consolidated Balance Sheet</b>						
Properties, Plants and Equipment (net)	\$ 9,549	14,544	18,655	8,548	13,400	18,613
Inventories	668	997	1,459	759	1,090	1,834
Other Assets	2,877	3,113	3,096	2,790	3,119	3,049
Liabilities	6,945	6,977	6,977	6,324	6,595	6,595
Stockholders' Equity (net assets)	6,149	11,677	16,233	5,773	11,014	16,901
<b>Summary Consolidated Statement of Income</b>						
Revenues	\$15,411	15,651	15,664	15,892	16,670	16,672
Costs and Expenses						
Costs and operating expenses (2)	11,014	11,193	11,283	11,481	12,182	12,192
Depreciation, depletion, amortization and retirements (3)	985	1,453	1,653	1,108	1,562	1,915
Other	1,135	1,154	1,154	1,203	1,263	1,263
Provision for Income Taxes	1,556	1,583	1,583	1,454	1,527	1,527
Net Income	\$ 721	268	(9)	646	136	(225)

See footnotes on page 63.

# Five-Year Comparison of Selected Supplementary Financial Data—Unaudited

Years Ended December 31

	Millions of Dollars Except Per Share Amounts (1)				
	1983	1982	1981	1980	1979
<b>Revenues</b>					
<b>Historical dollars</b>	<b>\$15,411</b>	<b>15,892</b>	<b>16,288</b>	<b>13,713</b>	<b>9,745</b>
Constant dollars	15,651	16,670	18,136	16,839	13,577
<b>Net Income</b>					
<b>Historical dollars</b>	<b>\$ 721</b>	<b>646</b>	<b>879</b>	<b>1,070</b>	<b>891</b>
Constant dollars	268	136	543	867	866
Current cost	(9)	(225)	262	485	387
<b>Net Income Per Share</b>					
<b>Historical dollars</b>	<b>\$ 4.71</b>	<b>4.23</b>	<b>5.78</b>	<b>7.01</b>	<b>5.77</b>
Constant dollars	1.75	.89	3.57	5.68	5.61
Current cost	(.06)	(1.47)	1.72	3.18	2.50
<b>Stockholders' Equity (net assets)</b>					
<b>Historical dollars</b>	<b>\$ 6,149</b>	<b>5,773</b>	<b>5,481</b>	<b>4,937</b>	<b>4,257</b>
Constant dollars	11,677	11,014	10,918	10,550	8,272
Current cost	16,233	16,901	16,445	16,207	15,489
<b>Unrealized Gains Attributable to Net Monetary Amounts Owed</b>	<b>\$ 134</b>	<b>117</b>	<b>172</b>	<b>149</b>	<b>153</b>
<b>Increase in Current Cost of Inventories, Properties, Plants and Equipment</b>	<b>\$ 225</b>	<b>1,590</b>	<b>1,666</b>	<b>2,320</b>	<b>3,979</b>
<b>Effect of Increase in General Price Level</b>	<b>751</b>	<b>730</b>	<b>1,513</b>	<b>1,888</b>	<b>1,692</b>
<b>Current Cost over (under) General Price Level</b>	<b>\$ (526)</b>	<b>860</b>	<b>153</b>	<b>432</b>	<b>2,287</b>
<b>Dividends Paid Per Share</b>					
<b>Historical dollars</b>	<b>\$ 2.20</b>	<b>2.20</b>	<b>2.20</b>	<b>1.80</b>	<b>1.35</b>
Constant dollars	2.24	2.31	2.45	2.21	1.88
<b>Market Price Per Share—end of year</b>					
<b>Historical dollars</b>	<b>\$ 34.50</b>	<b>32.63</b>	<b>40.50</b>	<b>58.75</b>	<b>48.00</b>
Constant dollars	34.50	33.87	43.67	69.01	63.37
<b>Consumer Price Index—average for year</b>	<b>298.4</b>	<b>289.1</b>	<b>272.4</b>	<b>246.8</b>	<b>217.4</b>
<b>Consumer Price Index—end of year</b>	<b>303.5</b>	<b>292.4</b>	<b>281.5</b>	<b>258.4</b>	<b>229.9</b>

(1) Both constant dollars and current cost are stated in 1983 end-of-year dollars.

(2) Includes \$266 and \$259 million in 1983 and 1982, respectively, of geological and geophysical expenses and lease rentals, which are included in exploratory costs and leasehold impairment in the Consolidated Statement of Income and Earnings Employed in the Business on page 41.

(3) Includes \$405 and \$408 million in 1983 and 1982, respectively, of dry hole costs and leasehold impairment, which are included in exploratory costs and leasehold impairment in the Consolidated Statement of Income and Earnings Employed in the Business on page 41.



## Consolidated Statement of Income

## TEN-YEAR FINANCIAL REVIEW

Years Ended December 31

Millions of Dollars Except as Indicated

	1983	1982	1981	1980	1979	1978	1977	1976	1975	1974
<b>Revenues</b>										
Sales and other operating revenues	\$15,249	15,698	15,966	13,377	9,503	6,998	6,284	5,698	5,134	4,981
Sale of Pacific Petroleum Ltd.	—	—	—	—	—	306	—	—	—	—
Other revenues (including equity in earnings of affiliated companies)	162	194	322	336	242	118	122	139	79	125
<b>Total Revenues</b>	<b>15,411</b>	<b>15,892</b>	<b>16,288</b>	<b>13,713</b>	<b>9,745</b>	<b>7,422</b>	<b>6,406</b>	<b>5,837</b>	<b>5,213</b>	<b>5,106</b>
<b>Costs and Expenses</b>										
Purchased crude oil and products	8,857	9,121	9,020	6,755	4,805	3,562	3,369	3,197	2,889	2,879
Production and operating expenses	1,891	2,101	2,104	1,849	1,402	1,117	953	736	709	668
Exploratory costs and leasehold impairment	671	667	535	481	393	243	170	176	207	163
Selling, general and administrative expenses	441	500	491	420	367	284	292	322	322	311
Depreciation, depletion, amortization and retirements	580	700	616	559	395	315	240	217	191	179
Taxes other than income taxes	447	477	649	303	150	115	104	93	94	85
Interest and expense on indebtedness	247	226	202	106	97	79	82	68	50	53
<b>Total Costs and Expenses</b>	<b>13,134</b>	<b>13,792</b>	<b>13,617</b>	<b>10,473</b>	<b>7,609</b>	<b>5,715</b>	<b>5,210</b>	<b>4,809</b>	<b>4,462</b>	<b>4,338</b>
Income before income taxes	2,277	2,100	2,671	3,240	2,136	1,707	1,196	1,028	751	768
Provision for income taxes	1,556	1,454	1,792	2,170	1,245	989	665	616	416	352
Income before extraordinary items and accounting change	721	646	879	1,070	891	718	531	412	335	416
Extraordinary items and accounting change	—	—	—	—	—	—	—	—	—	(28)
<b>Net Income</b>	<b>\$ 721</b>	<b>646</b>	<b>879</b>	<b>1,070</b>	<b>891</b>	<b>718</b>	<b>531</b>	<b>412</b>	<b>335</b>	<b>388</b>

## Per Average Share Outstanding\*

Income before extraordinary items and accounting change	\$ 4.71	4.23	5.78	7.01	5.77	4.66	3.46	2.70	2.20	2.74
Net income	4.71	4.23	5.78	7.01	5.77	4.66	3.46	2.70	2.20	2.56
Dividends paid per share	2.20	2.20	2.20	1.80	1.35	1.20	.97½	.87½	.80	.72½

## Income before Extraordinary Items and Accounting Change

As percent of average total assets	5.5	5.3	8.2	11.5	12.0	11.8	9.8	8.4	7.6	10.4
As percent of total revenues	4.7	4.1	5.4	7.8	9.1	9.7	8.3	7.1	6.4	8.1
<b>Percent of Total Revenues from Sales Outside U.S.</b>	<b>22.3</b>	<b>22.8</b>	<b>25.6</b>	<b>25.2</b>	<b>25.3</b>	<b>29.5</b>	<b>21.1</b>	<b>22.5</b>	<b>18.6</b>	<b>24.5</b>

\*Adjusted for two-for-one stock split in 1977.

## Consolidated Balance Sheet

## TEN-YEAR FINANCIAL REVIEW

At December 31

Millions of Dollars Except Per Share Amounts

	1983	1982	1981	1980	1979	1978	1977	1976	1975	1974
<b>Assets</b>										
<b>Current Assets</b>										
Cash and short-term investments	\$ 906	793	895	1,471	1,300	1,136	327	702	523	393
Accounts and notes receivable (net)	1,219	1,227	1,126	1,422	1,431	845	791	715	634	616
Inventories										
Crude oil, petroleum products, chemicals and merchandise	434	488	602	529	479	403	385	328	340	369
Materials and supplies	234	271	281	167	125	108	113	118	129	92
Prepaid expenses and other current assets	110	130	144	105	51	69	79	41	39	28
Total Current Assets	2,903	2,909	3,048	3,694	3,386	2,561	1,695	1,904	1,665	1,498
Investments and Long-Term Receivables (net)	456	450	512	367	276	230	501	460	437	399
Properties, Plants and Equipment (net)	9,549	8,548	7,548	5,675	4,778	3,945	3,467	2,721	2,506	2,236
Deferred Charges	186	190	156	108	79	98	79	60	43	21
Total Assets	\$13,094	12,097	11,264	9,844	8,519	6,834	5,742	5,145	4,651	4,154
<b>Liabilities</b>										
<b>Current Liabilities</b>										
Accounts payable	\$ 1,287	1,254	1,375	1,313	1,243	795	672	553	526	542
Notes payable	111	152	515	8	18	2	2	6	—	1
Long-term debt and obligations due within one year	31	41	41	60	79	85	79	70	73	62
Accrued income and other taxes	1,258	1,086	1,182	1,567	1,257	827	413	429	262	265
Other accruals	194	179	124	157	81	61	61	51	49	43
Total Current Liabilities	2,881	2,712	3,237	3,105	2,678	1,770	1,227	1,109	910	913
Long-Term Debt	2,198	1,900	1,031	698	648	676	767	839	893	658
Other Long-Term Liabilities	358	495	397	270	154	89	49	1	2	2
Obligations under Capital Leases	44	55	69	75	97	121	156	176	200	221
Accrued Contingent Liabilities	147	224	235	165	135	144	94	60	66	60
Deferred Income Taxes	1,210	838	710	491	464	392	350	257	170	35
Other Deferred Credits	72	63	77	90	75	57	71	73	75	77
Minority Interest in Consolidated Subsidiaries	35	37	27	13	11	10	10	11	12	8
Total Liabilities	6,945	6,324	5,783	4,907	4,262	3,259	2,724	2,526	2,328	1,974
<b>Stockholders' Equity</b>										
Common Stock (\$1.25 par value)	193	193	193	193	193	193	192	191	191	191
Capital in Excess of Par Value	490	492	511	511	511	511	489	472	455	451
Treasury Stock (at cost)	(62)	(68)	(115)	(115)	—	—	—	—	—	(4)
Foreign Currency Translation Adjustments	(81)	(69)	—	—	—	—	—	—	—	—
Earnings Employed in the Business	5,609	5,225	4,892	4,348	3,553	2,871	2,337	1,956	1,677	1,542
Total Stockholders' Equity	6,149	5,773	5,481	4,937	4,257	3,575	3,018	2,619	2,323	2,180
Total Liabilities and Stockholders' Equity	\$13,094	12,097	11,264	9,844	8,519	6,834	5,742	5,145	4,651	4,154
<b>Stockholders' Equity Per Share*</b>	<b>\$ 40.13</b>	37.71	36.02	32.44	27.57	23.15	19.63	17.11	15.23	14.32

\*Adjusted for two-for-one stock split in 1977.



## Consolidated Statement of Changes in Financial Position

## TEN-YEAR FINANCIAL REVIEW

Years Ended December 31

Millions of Dollars

	1983	1982	1981	1980	1979	1978	1977	1976	1975	1974
<b>Source</b>										
Funds from operations	\$ 1,993	1,919	1,954	1,928	1,592	1,084	969	803	710	728
Long-term borrowings	382	939	377	95	30	3	76	67	325	85
Property sales and retirements	73	101	44	88	60	51	53	199	99	107
Sale of investments	197	9	12	69	36	449	1	24	4	20
Sale of company stock	4	28	—	—	—	23	17	18	8	18
Other	20	32	22	5	23	43	18	—	1	15
	\$ 2,669	3,028	2,409	2,185	1,741	1,653	1,134	1,111	1,147	973
<b>Application</b>										
Capital expenditures										
Energy Resources	\$ 844	1,383	1,995	1,058	876	589	793	471	476	420
Petroleum Products	126	389	330	336	423	187	83	110	140	92
Chemicals	64	148	166	181	114	126	161	121	57	68
Other	107	212	173	91	41	38	41	14	6	7
Total capital expenditures	1,141	2,132	2,664	1,666	1,454	940	1,078	716	679	587
Purchase of net noncurrent assets of General American Oil Company of Texas	1,229	—	—	—	—	—	—	—	—	—
Investments	23	18	98	147	40	19	36	36	35	9
Reduction of long-term borrowings	95	69	46	66	84	136	163	149	113	255
Dividends to company stockholders	337	336	335	275	208	185	150	134	122	110
Purchase of company stock	—	—	—	115	—	—	—	—	—	—
Other	19	87	44	35	38	50	34	35	29	46
Increase (decrease) in working capital	(175)	386	(778)	(119)	(83)	323	(327)	41	169	(34)
	\$ 2,669	3,028	2,409	2,185	1,741	1,653	1,134	1,111	1,147	973

## Properties, Plants and Equipment

<b>Gross Investment</b>										
Energy Resources	\$ 9,440	7,925	7,197	5,494	4,665	4,061	3,621	2,943	2,576	2,410
Petroleum Products	2,678	2,607	2,258	2,005	1,713	1,331	1,242	1,231	1,432	1,333
Chemicals	1,432	1,487	1,479	1,288	1,140	1,062	949	800	742	707
Other	752	683	480	319	237	202	161	142	118	110
	\$14,302	12,702	11,414	9,106	7,755	6,656	5,973	5,116	4,868	4,560
<b>Net Investment</b>										
Energy Resources	\$ 6,310	5,327	4,709	3,328	2,869	2,477	2,204	1,618	1,356	1,171
Petroleum Products	1,815	1,799	1,577	1,374	1,106	742	634	635	726	659
Chemicals	821	873	895	750	654	605	538	391	370	356
Other	603	549	367	223	149	121	91	77	54	50
	\$ 9,549	8,548	7,548	5,675	4,778	3,945	3,467	2,721	2,506	2,236

## Chemicals

## TEN-YEAR FINANCIAL REVIEW

	1983	1982	1981	1980	1979	1978	1977	1976	1975	1974
<b>Operating Revenues</b>	Millions of Dollars									
Basic petrochemicals and specialty chemicals	\$ 998	935	1,010	925	813	478	420	417	319	424
Plastic resins	572	508	476	467	427	243	220	209	130	131
Rubber chemicals	234	308	309	296	296	254	222	190	165	173
Consumer products	133	266	302	283	229	194	174	160	152	138
Fertilizers	95	139	128	96	80	63	77	78	114	160
Synthetic fibers	120	97	97	74	77	73	76	71	92	161
Other sales and services	103	103	148	108	135	79	85	105	86	132
	<b>\$2,255</b>	<b>2,356</b>	<b>2,470</b>	<b>2,249</b>	<b>2,057</b>	<b>1,384</b>	<b>1,274</b>	<b>1,230</b>	<b>1,058</b>	<b>1,319</b>

## Other Data

Shares outstanding at year-end* (in millions)	153.2	153.1	152.2	152.2	154.4	154.4	153.7	153.1	152.5	152.2
Stockholders at year-end (in thousands)	119.8	123.1	120.4	119.9	121.2	122.6	122.3	120.2	126.9	131.6
Total payroll including employee benefits (in millions)	\$1,192	1,278	1,178	1,015	863	720	613	550	529	479
Employees at year-end (in thousands)	28.4	29.6	34.5	32.4	30.3	30.0	28.4	27.8	30.5	30.8

\*Adjusted for two-for-one stock split in 1977.

## Operating Summary

## TEN-YEAR OPERATING REVIEW

<b>Exploration and Production</b>	1983	1982	1981	1980	1979	1978	1977	1976	1975	1974
<b>Net Crude Oil Production</b>	Thousands of Barrels Daily									
United States										
Texas	43.1	33.9	36.1	39.2	42.8	45.5	48.4	50.8	54.2	56.3
Alaska	29.8	29.7	29.6	29.9	26.4	24.2	9.9	4.6	4.2	4.1
Louisiana	15.2	14.0	16.2	15.8	15.8	15.7	17.4	18.4	18.0	19.6
Oklahoma	8.7	7.8	7.9	8.4	9.0	9.8	10.1	10.5	10.4	11.8
New Mexico	10.2	7.2	6.1	6.0	5.4	5.6	6.2	6.8	6.9	7.4
Arkansas	3.6	3.7	3.9	4.0	3.9	4.5	4.7	4.1	4.1	3.1
Wyoming	3.0	3.3	2.9	2.8	3.4	4.1	4.7	4.6	4.2	4.5
Other states	13.5	12.7	13.4	14.0	14.7	15.6	15.6	15.5	16.4	16.7
Total United States	127.1	112.3	116.1	120.1	121.4	125.0	117.0	115.3	118.4	123.5
Outside United States										
Europe	85.9	85.5	100.1	130.1	119.4	116.8	93.1	92.8	63.1	11.5
Africa	26.8	26.3	24.3	33.9	41.2	44.9	43.6	38.6	33.8	38.1
Canada	3.4	—	—	—	—	—	—	—	—	—
Southeast Asia	3.4	1.1	5.0	4.9	6.1	18.3	5.6	—	—	—
Middle East	—	—	—	—	—	5.4	5.6	5.9	6.2	9.1
Latin America	—	—	—	—	—	—	—	—	15.5	20.8
Total Outside United States	119.5	112.9	129.4	168.9	166.7	185.4	147.9	137.3	118.6	79.5
<b>Total Crude Oil Production</b>	<b>246.6</b>	<b>225.2</b>	<b>245.5</b>	<b>289.0</b>	<b>288.1</b>	<b>310.4</b>	<b>264.9</b>	<b>252.6</b>	<b>237.0</b>	<b>203.0</b>



## Exploration and Production

1983 1982 1981 1980 1979 1978 1977 1976 1975 1974

## Net Natural Gas Liquids Production\*

Thousands of Barrels Daily

Europe leaseholds	13.9	12.4	11.5	13.0	6.3	.2	.2	.3	.3	.3
Latin America leaseholds	—	—	—	—	—	—	—	—	1.8	2.3
Total Natural Gas Liquids Production	13.9	12.4	11.5	13.0	6.3	.2	.2	.3	2.1	2.6

\*See page 69 for natural gas liquids production by Gas and Gas Liquids operations.

## Net Natural Gas Production

Millions of Cubic Feet Daily

United States	799	789	899	943	1,072	1,130	1,159	1,247	1,312	1,433
Europe	443	471	488	554	485	419	184	133	125	116
Canada	24	—	1	—	1	—	—	—	—	—
Latin America	—	—	—	—	—	—	—	—	18	21
Total Natural Gas Production	1,266	1,260	1,388	1,497	1,558	1,549	1,343	1,380	1,455	1,570

## Net Oil and Gas Acreage

Millions of Acres

United States	8.1	8.3	9.7	9.2	6.2	6.1	6.0	6.6	7.2	7.2
Canada	2.4	2.0	1.9	2.2	2.7	2.6	2.1	3.2	3.4	3.5
Latin America	1.5	1.5	14.5	15.9	18.1	20.3	4.7	3.6	12.2	13.0
Europe	2.0	2.0	2.2	2.6	3.0	1.4	1.0	1.4	1.5	1.5
Africa	1.9	9.5	14.3	7.0	9.7	15.3	6.9	7.2	8.0	13.2
Middle East	—	—	—	—	—	—	—	1.7	1.8	3.0
Southeast Asia	7.2	9.0	18.8	12.4	5.9	5.3	10.2	25.0	28.6	32.1
Australia and New Zealand	.7	.7	4.3	2.2	1.6	22.5	23.8	23.7	1.5	5.3
Total Net Oil and Gas Acreage	23.8	33.0	65.7	51.5	47.2	73.5	54.7	72.4	64.2	78.8

## Oil and Gas Wells

Net Wells

United States										
Oil	8,210	6,439	6,396	6,233	6,104	6,141	6,210	6,202	6,191	6,184
Gas and condensate	2,573	2,323	2,293	2,237	2,185	2,164	2,132	2,129	2,122	2,086
Outside United States										
All wells	473	132	127	116	100	79	105	91	82	267
Total Oil and Gas Wells	11,256	8,894	8,816	8,586	8,389	8,384	8,447	8,422	8,395	8,537

## Well Completions

United States										
Exploratory	51	43	43	21	10	6	5	18	44	53
Development	203	258	243	209	118	94	134	161	172	136
Outside United States										
Exploratory	7	20	32	24	32	20	14	13	21	24
Development	7	5	9	12	11	3	6	8	12	16
Total Well Completions	268	326	327	266	171	123	159	200	249	229

# Operating Summary

## TEN-YEAR OPERATING REVIEW

Gas and Gas Liquids	1983	1982	1981	1980	1979	1978	1977	1976	1975	1974
<b>Natural Gas Purchases</b>	Millions of Cubic Feet Daily									
United States										
Purchases from unaffiliated entities	1,222	1,215	1,220	1,112	1,145	999	1,030	1,051	1,124	1,171
Purchases from consolidated operations	397	388	422	451	509	526	557	599	630	671
<b>Total Natural Gas Purchases</b>	<b>1,619</b>	<b>1,603</b>	<b>1,642</b>	<b>1,563</b>	<b>1,654</b>	<b>1,525</b>	<b>1,587</b>	<b>1,650</b>	<b>1,754</b>	<b>1,842</b>

<b>Natural Gas Processed (United States)</b>	<b>1,715</b>	<b>1,700</b>	<b>1,799</b>	<b>1,871</b>	<b>1,825</b>	<b>1,849</b>	<b>1,972</b>	<b>2,040</b>	<b>2,401</b>	<b>2,842</b>
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<b>Natural Gas Sales</b>										
United States										
Natural gas	756	811	784	739	727	755	828	866	964	1,043
Liquefied natural gas	101	96	107	86	99	93	99	96	102	96
<b>Total Natural Gas Sales</b>	<b>857</b>	<b>907</b>	<b>891</b>	<b>825</b>	<b>826</b>	<b>848</b>	<b>927</b>	<b>962</b>	<b>1,066</b>	<b>1,139</b>

<b>Net Natural Gas Liquids Production*</b>	Thousands of Barrels Daily									
United States										
Leaseholds	26.8	28.0	31.3	33.5	37.9	34.9	39.3	36.2	35.6	37.1
Plants	134.7	119.7	120.6	116.1	103.7	98.9	98.9	94.6	90.3	95.1
<b>Total Natural Gas Liquids Production</b>	<b>161.5</b>	<b>147.7</b>	<b>151.9</b>	<b>149.6</b>	<b>141.6</b>	<b>133.8</b>	<b>138.2</b>	<b>130.8</b>	<b>125.9</b>	<b>132.2</b>

\*See page 68 for natural gas liquids production by Exploration and Production operations.

## Petroleum Products

<b>Refinery Capacity</b>	Thousands of Barrels Daily									
United States										
Crude oil	295	374*	380	425	302	323	323	323	408	408
Natural gas liquids	228	228	228	176	176	186	186	186	165	165
Outside United States										
Crude oil	—	—	—	—	—	—	—	—	—	6
<b>Total Refinery Capacity</b>	<b>523</b>	<b>602</b>	<b>608</b>	<b>601</b>	<b>478</b>	<b>509</b>	<b>509</b>	<b>509</b>	<b>573</b>	<b>579</b>

\*Includes the 80,000-barrel-a-day Kansas City refinery closed August 1, 1982.

<b>Refinery Runs</b>										
United States										
Crude oil	260	277	285	262	287	302	297	318	368	373
Natural gas liquids	187	179	167	159	153	138	153	142	133	148
Outside United States										
Crude oil	—	—	—	—	—	—	—	—	2	1
<b>Total Refinery Runs</b>	<b>447</b>	<b>456</b>	<b>452</b>	<b>421</b>	<b>440</b>	<b>440</b>	<b>450</b>	<b>460</b>	<b>503</b>	<b>522</b>



## Operating Summary

## TEN-YEAR OPERATING REVIEW

Petroleum Products	1983	1982	1981	1980	1979	1978	1977	1976	1975	1974
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Petroleum Products Sold	Thousands of Barrels Daily									
United States										
Automotive gasoline	212	216	209	214	220	250	237	272	304	286
Aviation fuels	23	29	23	19	24	27	26	25	24	30
Distillates	81	77	77	81	82	82	72	87	99	100
Liquefied petroleum gas	98	108	94	106	100	92	119	101	97	92
Other products	38	31	43	40	32	32	37	43	31	33
Total United States	452	461	446	460	458	483	491	528	555	541
Outside United States (including exports)	53	52	55	49	50	33	41	49	56	60
Total Petroleum Products Sold	505	513	501	509	508	516	532	577	611	601
Marketing Outlets (in thousands)	12.0	13.9	14.3	12.8	13.4	13.6	14.8	15.6	17.7	18.6

## Management and Board of Directors Changes

Several vice presidents were elected by the board of directors during the year. In July, W.E. Barr was elected vice president engineering. He was previously manager of corporate engineering. Also in July, R.E. Bonnell, treasurer, was elected vice president and treasurer, and J.W. O'Toole, general tax officer, was elected vice president and general tax officer. B.M. Thompson was elected vice president planning and development in December. He was previously manager of corporate planning and development. Thompson succeeded J.W. Davison, senior vice president planning and development, who elected to take early retirement effective January 1, 1984. Also in December, John N. Scott, formerly manager of the company's Washington, D.C., office, was elected vice president federal relations. Carstens Slack retired as vice president of the Washington office in July. In February 1984, C.L. Bowerman was elected vice president marketing. He succeeded G.J. Morrison, who retired on March 1, 1984. W.W. Dunn retired as vice president exploration on March 1, 1984.

G.C. Meese was elected secretary of the company in April. He succeeded Harvey W. Thompson, who retired on June 1.

W.F. Martin, who retired as chairman of the board in 1982, retired from the board of directors in April. His retirement brought the total number of directors to 15.



## Board of Directors and Principal Officers

As of March 1, 1984

### Directors

**George B. Beitzel**, Senior Vice President and Director of International Business Machines Corporation, a manufacturer of computers and office equipment, Armonk, N.Y. (3),(5)

**Michael N. Chetkovich**, Director of External Affairs, School of Business Administration, University of California, and retired managing partner in the accounting firm of Deloitte Haskins & Sells, Atherton, Calif. (2),(5)

**Glenn A. Cox**, Executive Vice President (1)

**Wm. C. Douce**, Chairman of the Board of Directors and Chief Executive Officer (1)

**James B. Edwards**, President of the Medical University of South Carolina and former U.S. Secretary of Energy, Charleston, S.C. (4),(5)

**E. Douglas Kenna**, Partner of G. L. Ohrstrom & Company, a private investment group, Palm Beach, Fla. (3),(4)

**C. M. Kittrell**, Executive Vice President (1)

**Melvin R. Laird**, Senior Counsellor for National and International Affairs for The Reader's Digest Association, Inc., Washington, D. C. (4),(5)

**Carol C. Laise**, Retired Director General of the U.S. Foreign Service in the State Department and former U.S. Ambassador to Nepal, Washington, D. C. (2),(3)

**David B. Meeker**, Retired Chairman of the Board of Directors of Hobart Corporation, a manufacturer of food equipment and home appliances, Troy, Ohio (3),(4)

**C. J. Silas**, President and Chief Operating Officer (1)

**R. G. Wallace**, Executive Vice President (1)

**W. Clarke Wescoe**, Chairman of the Board of Directors and Chief Executive Officer of Sterling Drug Inc., a diversified pharmaceutical company, New York, N.Y. (2),(3)

**Dolores D. Wharton**, President of The Fund for Corporate Interns, Inc., a nonprofit organization that arranges business internships for minority and women students, Albany, N.Y. (2),(5)

**Francis M. Wheat**, A Senior Partner in the law firm of Gibson, Dunn & Crutcher, Los Angeles, Calif. (2),(4)

### Officers

**Wm. C. Douce**, Chairman of the Board of Directors and Chief Executive Officer

**C. J. Silas**, President and Chief Operating Officer

**Glenn A. Cox**, Executive Vice President

**C. M. Kittrell**, Executive Vice President

**R. G. Wallace**, Executive Vice President

### Exploration and Production

**L. M. Rickards**, Senior Vice President

### Petroleum Products

**Gordon D. Goering**, Senior Vice President

**C. L. Bowerman**, Vice President Marketing

**John E. Harris, Jr.**, Vice President Supply

**Richard I. Robinson**, Vice President Refining

### Chemicals

**R. G. Askew**, Senior Vice President

### Gas and Gas Liquids

**Paul W. Tucker**, Vice President

### Minerals

**K. L. Smalley**, Vice President

### Other Corporate Officers

**O. W. Armstrong**, Vice President Finance and Assistant Secretary

**W. E. Barr**, Vice President Engineering

**R. E. Bonnell**, Vice President and Treasurer

**J. Thomas Boyd**, Vice President Public Affairs

**C. F. Cook**, Vice President Research and Development

**Kenneth Heady**, Vice President and General Counsel

**Russell L. Howard**, Vice President Investor Relations

**J. W. O'Toole**, Vice President and General Tax Officer

**John N. Scott**, Vice President Federal Relations

**Ray G. Steiner**, Vice President Services

**W. R. Thomas**, Vice President Human Resources

**B. M. Thompson**, Vice President Planning and Development

**J. Bryan Whitworth**, Vice President Government Relations

**W. E. Thomas**, Comptroller

**L. E. Burnham**, General Auditor

**G. C. Meese**, Secretary

**E. A. Baldwin**, Assistant General Tax Officer

**L. F. Francis**, Assistant General Tax Officer

**James A. Kelly**, Assistant Comptroller

**J. G. Wilson**, Assistant Comptroller

**D. L. Cone**, Assistant Secretary

**Betty L. Crocker**, Assistant Secretary

**J. C. English**, Assistant Treasurer

**C. B. Friley**, Assistant Treasurer

(1) Member Executive Committee

(2) Member Audit Committee

(3) Member Compensation Committee

(4) Member Nominating Committee

(5) Member Public Policy Committee

## Board of Directors

George B. Beitzel

Michael N. Chetkovich

Glenn A. Cox

Wm. C. Douce

James B. Edwards

E. Douglas Kenna

C.M. Kittrell

Melvin R. Laird

Carol C. Laise

David B. Meeker

C. J. Silas

R.G. Wallace

W. Clarke Wescoe

Dolores D. Wharton

Francis M. Wheat





## Stockholder Information

### Form 10-K

Copies of the company's annual report on Form 10-K as filed with the Securities and Exchange Commission may be obtained without charge by writing to G.C. Meese, Secretary, Phillips Petroleum Company, Bartlesville, Okla. 74004.

### Annual Contributions Report

Copies of the company's Annual Contributions Report may be obtained without charge by writing to G.C. Meese, Secretary, Phillips Petroleum Company, Bartlesville, Okla. 74004.

### Information Requests

Should you have questions about the information in this annual report or about the company, please contact Phillips investor relations office in New York City (212/397-9760) or Bartlesville (918/661-5139).

Questions regarding stockholder records, stock certificates, dividend checks or the dividend reinvestment plan should be directed to Phillips stockholder records section in Bartlesville (918/661-6345).

### Annual Meeting

The annual meeting of stockholders will be held at 10 a.m., April 24, 1984, at the company's headquarters in Bartlesville, Okla. Notice of the meeting and proxy material are being sent to all stockholders with the 1983 Annual Report.

### Principal Offices

Bartlesville, Okla. 74004

630 Fifth Avenue  
New York, N.Y. 10111

306 South State Street  
Dover, Del. 19901

### Stock Transfer Offices

Manufacturers Hanover Trust Company  
Corporate Trust  
450 West 33rd Street  
New York, N.Y. 10001

Montreal Trust Company  
15 King Street West  
Toronto, Ontario  
Canada M5H 1B4

### Registrars

Manufacturers Hanover Trust Company  
Corporate Trust  
450 West 33rd Street  
New York, N.Y. 10001

Canada Permanent Trust Company  
20 Eglinton Avenue West  
Toronto, Ontario  
Canada M4R 2E2

### Selected Subsidiaries

Applied Automation, Inc.  
Phillips Chemical Company  
Phillips Coal Company  
Phillips Driscopipe, Inc.  
Phillips Fibers Corporation  
Phillips Oil Company  
N.V. Phillips Petroleum Chemicals S.A.  
Phillips Petroleum Company Europe-Africa  
Phillips Petroleum Company Norway  
Phillips Pipe Line Company  
Phillips Puerto Rico Core Inc.  
Philtankers Inc.  
Pier 66 Company





Phillips  
Petroleum  
Company

BARTLESVILLE,  
OKLAHOMA 74004

